THE PEPSI BOTTLING GROUP

December 19, 2002

Mr. Seth Ausubel
Remedial Project Manager
United States Environmental Agency
Region II
Emergency and Remedial Response Division
290 Broadway, 19th Floor
New York, New York 10007-1866

Re: Response on Behalf of Bottling Group, LLC d/b/a The Pepsi Bottling Group ("PBG") to the Request For Information Pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. Section 9601 et seq., re: Berry's Creek Study Area, Bergen County, New Jersey.

Dear Mr. Ausubel,

Attached, please find our response in the above-referenced matter. As I have indicated in our answers to a few of the questions posed, PBG is aware of its obligation to supplement its response as more information may become available and we will do so in a timely manner.

If you have any questions or wish to clarify some point, please give me a call to discuss.

Sincerely,

David H. Patrick
Operations Counsel

cc: Mr. Clay Monroe, Esquire
Assistant Regional Counsel
Office of Regional Counsel
290 Broadway, 17th Floor
New York, New York 10007-1866

REQUEST FOR INFORMATION

1. a. **State the correct legal name and mailing address of your Company.**

RESPONSE: Bottling Group, LLC d/b/a The Pepsi Bottling Group ("PBG")
1 Pepsi Way
Somers, New York 10589

Respondent: David H. Patrick, Esq.
Documents: Annual Report, Form 10K, Bottling Group, LLC marked as Exhibit A.

b. **Identify the legal status of your Company (corporation, partnership, sole proprietorship, specify if other) and the state in which your Company was organized or formed.**

RESPONSE: Bottling Group, LLC is a limited liability company incorporated in the State of Delaware.

Respondent: David H. Patrick, Esq.
Documents: Annual Report, Form 10K, Bottling Group, LLC marked as Exhibit A.

c. **State the name(s) and address(es) of the President, Chairman of the Board, and the Chief Executive Officer of your Company.**

RESPONSE: Mr. Eric J. Foss
President, PBG North America
1 Pepsi Way
Mail Drop 7N-24
Somers, New York 10589

Mr. Craig E. Weatherup
Chairman of the Board
1 Pepsi Way
Mail Drop 7N-21
Somers, New York 10589

Mr. John T. Cahill
Chief Executive Officer
1 Pepsi Way
Mail Drop 7N-23
Somers, New York 10589

Respondent: David H. Patrick, Esq.
Documents: Annual Report, Form 10K, Bottling Group, LLC marked as Exhibit A.

d. If your Company is a subsidiary or affiliate of another corporation, or has subsidiaries, identify each such entity and its relationship to your Company, and state the name(s) and address(es) of each such entity's President, Chairman of the Board, and Chief Executive Officer.

RESPONSE: Bottling Group, LLC is the principal operating subsidiary of The Pepsi Bottling Group, Inc. The subsidiaries of Bottling Group, LLC are attached as Exhibit B. The members of Bottling Group, LLC are;

John T. Cahill
Managing Director
1 Pepsi Way
Somers, New York 10589

Pamela C. McGuire
Managing Director
1 Pepsi Way
Somers, New York 10589

Matthew M. McKenna
Managing Director
700 Anderson Hill Road
Purchase, New York 10577

Respondent: David H. Patrick, Esq.
Documents: Annual Report, Form 10K, Bottling Group, LLC marked as Exhibit A & spreadsheet "Subsidiaries of The Pepsi Bottling Group, Inc. ("PBG") marked as Exhibit B.

e. Identify the state and date of incorporation and the agent for service of process in the state of incorporation and in the State of New Jersey for your Company and for each entity identified in your response to Question 1.d., above.

RESPONSE: Please see columns 2 and 3 of the spreadsheet marked Exhibit B

Respondent: Lisa Morrissey
Documents: See attached spreadsheet marked as Exhibit B

f. If your Company is a successor to, or has been succeeded by another entity, identify such other entity and provide the same information requested in Question 1.e., above.

RESPONSE: The Pepsi Bottling Group, Inc., was incorporated in Delaware in January, 1999 as a wholly-owned subsidiary of PepsiCo Inc., to effect the separation of most of PepsiCo's company-owned bottling businesses. PepsiCo and The Pepsi Bottling Group, Inc. contributed bottling businesses and assets used in the bottling business to Bottling Group, LLC in connection

with the formation of PBG. The Pepsi Bottling Group, Inc. became a publicly traded company on March 31, 1999.

Respondent: David H. Patrick, Esq.
Documents: Annual Report, Form 10K, Bottling Group, LLC marked as Exhibit A.

2. **Provide a description of the Site, i.e. the property or properties in Teterboro, Bergen County, New Jersey, which your Company owned or owns, or upon which it operated or leased, or currently operates or leases. Include Block and Lot numbers, names of streets or physical features bounding the property(ies), and acreage.**

RESPONSE: The Site is a parcel of land of approximately 3 acres containing a 46,733 (more or less) square foot masonry building, and was commonly known as 350 North Street (Block 303, Lot 11) Boro of Teterboro, Bergen County, New Jersey. The Site is bordered to the East by North Street and is located near the major highways of Routes 80 and 46.

Respondent: David H. Patrick, Esq.
Cynthia Poggiogalle
Documents: Real Estate Agreements of Lease marked as Exhibits C, D, and E.

3. **Provide a narrative description of the nature of the Company's business. If the nature of the Company's business changed over time, please explain how it changed, (including any name changes) and approximately when the changes occurred.**

RESPONSE: PBG is the world's largest manufacturer, seller and distributor of Pepsi-Cola beverages. We have the exclusive right to manufacturer, sell and distribute Pepsi-Cola beverages in all or a portion of 41 states and 12 non-US markets. In some of our territories, we also have the right to manufacture, sell and distribute soft drink products of other companies including Dr. Pepper, 7UP and All Sport.

Respondent: David H. Patrick, Esq.
Documents: Annual Report, Form 10K, Bottling Group, LLC marked as Exhibit A.

4. **Please specify the time period during which the Company leased, owned, and/or operated the Site. If the Company leased, owned or operated at portions of the Site, specify the time periods of such involvement, and appropriate block and lot numbers. If your Company ever leased the Site, provide copies of leases, names, current addresses and telephone numbers of each owner of the Site during the period the Company leased the Site.**

RESPONSE: The Site was originally leased to Pepsi-Cola Metropolitan Bottling Company, Inc., pursuant to an Agreement of Lease dated September 6, 1949 by and between Alexander Summer, Inc., a New Jersey Corporation (as "Lessor") and Pepsi-Cola Metropolitan Bottling Company, Inc., a New Jersey Corporation (as "Lessee") for a term of twenty years. Pepsi-Cola Company was the parent company of Pepsi-Cola Metropolitan Bottling Company, Inc. at that

time. This Agreement of Lease was amended on August 23, 1950 in a writing (referred to as an "Agreement") by and between Pepsi-Cola Company, a Corporation of the State of Delaware and Alexander Summer, Inc., a New Jersey Corporation (as "Lessor"). On September 1, 1950, Alexander Summer, Inc., assigned all of its rights, title and interest in the Agreement to The Prudential Insurance Company of America. The first option to renew the Agreement was exercised on December 22, 1969, for an additional term of 10 years. The Agreement was renewed once more on February 8, 1980 for a term of ten years.

During the last term of the Agreement, Pepsi-Cola Metropolitan Bottling Company, Inc., purchased the Site from The Prudential Insurance Company of America in an agreement dated December 31, 1982. Pepsi-Cola Metropolitan Bottling Company, Inc., held onto this property until it was sold to Harco Industries, Inc., a New Jersey Corporation on December 10, 1992. On that same day, Harco assigned all its rights, title and interest in the property to North Associates, Inc., a New Jersey Corporation.

Respondent: David H. Patrick, Esq.
Documents: Real Estate Agreements of Lease marked as Exhibits C, D, and E and Contract of Sale marked as Exhibit F.

5. Describe the Site at the time the Company took possession of it. If there was any business at the Site, explain the nature of that business.

RESPONSE: The building was new at the time Pepsi-Cola Metropolitan Bottling Company, Inc. took possession of the premises. The structure was purposefully built by Alexander Summer, Inc., for the express purpose of manufacturing, warehousing and distributing soft drinks.

Respondent: David H. Patrick, Esq.
Documents: Real Estate Agreements of Lease marked as Exhibits C, D, and E.

6. Describe in detail the nature of the relationship between the Company and each of the following entities: (1) Pepsi Cola Company (2) Pepsi Cola Bottling Group; (3) Pepsi Cola Bottling Company. Indicate the time and manner in which the relationships were established. Specifically address the relationships as pertaining to any current or past operations or ownership at the Site.

RESPONSE: (1) Pepsi-Cola Company is now known as Pepsi-Cola North America ("PCNA"), one of PepsiCo's subsidiaries. PCNA supplies PBG with the critical ingredients needed to manufacture Pepsi brand soft drinks. Additionally, PCNA supplies marketing support, capital equipment funding and shared media, and advertising support. This relationship applied to the period in time when Pepsi-Cola Metropolitan Bottling Company, Inc., owned and operated the Site.

(2) Pepsi Cola Bottling Group is not a valid or existing subsidiary of PepsiCo or The Pepsi Bottling group, Inc., nor is it a registered DBA. If this name has appeared on any documents, it is an error.

(3) Pepsi Cola Bottling Company is not a valid or existing subsidiary of PepsiCo or The Pepsi Bottling Group, Inc., nor is it a registered DBA. If this name has appeared on any documents, it is an error.

Respondent: David H. Patrick, Esq.
Lisa Morrissey
Documents: Personal knowledge of corporate structure

7. Describe in detail the nature of the activities conducted by the Company at the Site from the time the Company began operations at the Site until the present time, including:

a. the services performed at the Site;

RESPONSE: The Site was used for the manufacture and warehousing of soft drink products.

Respondents: Mark Pellegrini
Galo Cadena
Documents: Phone conversations with respondents & Real Estate Agreements of Lease marked as Exhibits C, D, and E.

b. all products which the Company manufactured, supplied, or sold which resulted from activities at the Site;

RESPONSE: Products include all Pepsi Brand products such as Pepsi, Diet Pepsi, Mountain Dew, Slice, and Mug.

Respondent: Galo Cadena
Document: Phone conversation

c. research and development activities; and

RESPONSE: None

Respondent: Galo Cadena
Document: Phone conversation

d. the time period during which those activities occurred.

RESPONSE: From the inception of the Lease until on or about March of 1992 when the facility was closed.

Respondents: Mark Pellegrini
Tom McGloughlin
Galo Cadena
Documents: Personal knowledge as former Site employees

8. **Did your Company cease operations at the Site? If so, when? Describe the circumstances that precipitated your Company's decision to cease operations at the Site.**

RESPONSE: Company ceased operations at the Site on or about March of 1992. The Company needed more manufacturing capacity than the Site allowed, and consequently a new site was chosen to build a new larger facility.

Respondents: Mark Pellegrini
Galo Cadena
Documents: Contract of Sale marked as Exhibit F & personal knowledge of respondents.

9. **Did your Company generate hazardous wastes at the Site, or does your Company currently do so? Please describe your Company's treatment, storage and/or disposal practices for any hazardous wastes generated at the Site.**

RESPONSE: The Site generated small quantities of hazardous waste in the form of an ink make-up solvent that contained either methylethylketone (MEK) or methylisobutylketone (MIK). The make-up solvent(s) were stored on-site until picked-up by a recycling company permitted to process such waste type.

Respondents: Mark Pellegrini
Tom McLoughlin
Documents: Personal knowledge as former Site employees

10. **Provide a list of all local, state and federal environmental permits ever granted for the Site or any part thereof (e.g. RCRA permits, NPDES permits, etc.).**

RESPONSE: To the best of each respondent's knowledge, no environmental permits were ever issued to the Site.

Respondents: Mark Pellegrini
Tom McGloughlin
Galo Cadena
Documents: Personal knowledge of respondents

11. **List all hazardous substances (as defined in the "Instructions"), which were, or are, used, stored, or handled at the Site.**

RESPONSE: The Site stored chlorine, ammonia, fuel oil, diesel/gasoline and used motor oil.

Respondents: Mark Pellegrini
Tom McGloughlin
Galo Cadena
Documents: Personal knowledge of respondents

12. State when and where each substance identified in your response to Question 11 was, or is, used, stored, or handled at the Site and the volume of each substance.

RESPONSE: (1) Chlorine: Used and stored in the water treatment room which was separated from other plant operations. Stored in 150 pounds cylinders, quantity stored on-hand at any given time unknown at this time.

(2) Ammonia: Used in the plant for non-contact cooling. Stored outside in a receiver vessel - capacity of receiver unknown at this time.

(3) Fuel oil: Used in the fleet area for fueling boilers. Stored in an underground storage tank. Capacity of tank unknown at this time.

(4) Diesel fuel/gasoline: Used for on-site fueling of trucks. Respondents believe that the diesel fuel/gasoline UST was removed circa 1984, however, we have no documentation on the removal. We are attempted to determine which company performed the removal of the tanks, and will supplement our response accordingly.

Respondents: Mark Pellegrini
Galo Cadena

Documents: Personal knowledge of respondents

13. Describe in detail how and where the hazardous wastes, industrial wastes, and hazardous substances generated, handled, treated, and stored at the Site were, or are, disposed of. If any hazardous wastes, hazardous substances, or industrial wastes were, or are, taken off-site for disposal or treatment, state the names and addresses of the transporters and the disposal facility used.

RESPONSE: Respondents believe that any Industrial Wastes (trash, garbage or other refuse associated with an industrial operation) were disposed of by the local trash hauling company. Respondents do not recall the name of the trash company that had the Site on their pick-up route.

Respondent: Mark Pellegrini
Galo Cadena
Documents: Personal knowledge as former Site employees

14. Who determined, or determines, where to treat, store and/or dispose of the hazardous substances and/or hazardous wastes handled at the Site? Provide the names and current or last known addresses of any entities or individuals which made such determination.

RESPONSE: Direction was most likely provided by Robert Reichman, Vice President, Quality Services. Mr. Reichman is no longer with PepsiCo. His last known address was 1 Pepsi Way, Somers, New York 10589.

Respondent: Galo Cadena
Documents: Personal knowledge of respondent

15. **Describe in detail the remedial activities conducted at the Site under CERCLA, the Resource Conservation and Recovery Act (RCRA), and/or laws of the State of New Jersey. Describe your Company's involvement in the remedial activities.**

RESPONSE: A memo in our real property file references that a New Jersey Spill Report case number (# 92-04-16-1250-21) was assigned to the Teterboro facility. This memo is attached as Exhibit G. There is no further information regarding how this case was resolved in our file. We are attempting to gather more information on this case # through database searches and by contacting the Environmental Consultant(s) retained to perform the environmental investigations. A memo in our real estate files from legal counsel identifies the Dunn Corporation as possibly being the vendor selected to address the above-referenced case number - attached as Exhibit H. As we have no Phase I report from Dunn in our possession, will supplement this answer accordingly.

Respondent: David H. Patrick, Esq.
Documents: Correspondence marked as Exhibits G & H

16. **Identify all leaks, spills, or releases into the environment of any hazardous substances, pollutants, or contaminants that have occurred, or are occurring, at or from the Site. Specifically identify and address any leaks, spills or releases to the Berry's Creek Study Area. Identify:**

a. when such releases occurred;

b. how the releases occurred;

c. the amount of each hazardous substances, pollutants, or contaminants so released (for substances contained in any sewage effluent from the Site, provide discharge monitoring reports or other data indicating discharge concentrations and loads, as available);

d. where such releases occurred;

e. where such releases entered the Berry's Creek Study Area, if applicable; and

f. the pathway by which such releases entered the Berry's Creek Study Area, including any storm sewers, pipes, or other conveyances discharging to a water body or wetland; or via surface runoff, groundwater discharge, or any spills, leaks, or disposal activities.

RESPONSE: We believe that environmental consultant (Dunn Corporation) may have reports in their possession that addresses question 16 parts a-f. We are attempting to locate these reports, and will supplement our answer accordingly.

Respondent: David H. Patrick, Esq.
Documents: Correspondence marked as Exhibits G & H.

17. **Please complete the form on page 5, below. Indicate on the form whether each of the chemicals listed has ever been released from the Site to the Berry's Creek Study Area, including creeks, ditches, or other water bodies, or wetlands. Follow all additional instructions on the form. In addition, please answer Question 16, above, specifically addressing any chemicals for which you answered "yes".**

RESPONSE: See Form attached as Exhibit I.

Respondents: Mark Pellegrini
Tom McGloughlin
Galo Cadena
Documents: Personal knowledge as former Site employees

18. **Identify all companies, firms, facilities, and individuals (hereafter referred to as "customers") from whom your Company obtained, or obtains, materials containing Industrial Waste as defined in Number 6 of the Definitions and whose Industrial Waste was, or is, treated, stored, handled or disposed of at the Site. For each such customer:**

a. Describe the relationship (the nature of services rendered and products purchased or sold) between your Company and the customer;

b. Provide copies of any agreements and/or contracts between your Company and the customer;

c. Provide the name and address of each customer who sent such materials, including contact person(s) within said customer;

d. Provide shipping and transaction records pertaining to such Industrial Wastes sent by each customer, including but not limited to invoices, delivery receipts, receipts acknowledging payment, ledgers reflecting receipt of payment, bills of lading, weight tickets, and purchase orders; and

e. Provide the name and address of all companies and individuals who transported, or transport, Industrial Wastes to the Site.

RESPONSE: To the best of knowledge of the Respondents, the Company did not receive any Industrial Wastes from any Customers. It would not have been routine practice to permit Industrial Waste from another company to be treated, stored, handled or disposed of at the Site.

Respondents: Mark Pellegrini
Documents: Personal knowledge of respondent as a former employee.

19. **For each customers' Industrial Waste handles, treated, stored, or disposed of at the Site, describe:**

i. the volume;
ii. the nature;

iii. chemical composition;
iv. color;
v. smell;
vi. physical state (e.g., solid, liquid);
vii. any other distinctive characteristics; and
viii. the years during which each customer's materials were handled, treated, stored, or disposed of at the Site.

RESPONSE: To the best of knowledge of the Respondents, the Company did not receive any Industrial Wastes from any Customers. It would not have been routine practice to permit Industrial Waste from another company to be treated, stored, handled or disposed of at the Site.

Respondents: Mark Pellegrini
Documents: Personal knowledge of respondent as a former employee.

20. Please supply any additional information or documents that may be relevant or useful to identify other companies or sources that sent industrial wastes to the Site.

RESPONSE: Not Applicable

Respondent: David H. Patrick, Esq.
Documents: none

21. Please state the name, title and address of each individual who assisted or was consulted in the preparation of your response to this Request for Information and correlate each individual to the question on which he or she was consulted.

RESPONSE: Mr. Thomas McLoughlin
Director, Manufacturing & Logistics
The Pepsi Bottling Group
1800 Preston Park Boulevard
Plano, Texas 75093
Respondent to questions 9,10, 11, 17 & 21
(former production manager of the Site 1983-1987)

Mr. Mark Pellegrini
Director, Manufacturing & Logistics
The Pepsi Bottling Group
315 Norwood Park South
Norwood, MA 02451
Respondent to questions 7,8,9,10,11,12,13,17,18 & 21.
(former quality control manager of the Site)

Ms. Cynthia Poggiogalle
Manager, Real Estate
1 Pepsi Way
Somers, New York 10589
Respondent to question 2 & 21.

Mr. Galo Cadena
Contract Operations
350 Columbus Avenue
Valhalla, New York 10595
Respondent to question 7, 8, 10, 11, 12, 13, 14, 17 & 21.
(former production supervisor at the Site)

Ms. Lisa Morrissey
Paralegal
The Pepsi Bottling Group
1 Pepsi Way
Somers, New York 10589
Respondent to question 1, 6 & 21.

Mr. David H. Patrick, Esq.
Operations Counsel
The Pepsi Bottling Group
1 Pepsi Way
Somers, New York 10589
Respondent to question 1, 2, 3, 4, 5, 6, 15, 16, 20 & 21.

22. For each question herein, identify all documents consulted, examined, or referred to in the preparation of the answer or that contain information responsive to the question and provide true and accurate copies of all such documents.

RESPONSE: See attached Exhibits A, B, C, D, E, F

Respondent: David H. Patrick, Esq.

CERTIFICATION OF ANSWERS TO REQUEST FOR INFORMATION

State of New York

County of Westchester :

I certify under penalty of law that I have personally examined and am familiar with the information submitted in this document (response to EPA Request for Information) and all documents submitted herewith, and that based on my inquiry of those individuals immediately responsible for obtaining the information, I believe that the submitted information is true, accurate, and complete, and that all documents submitted herewith are complete and authentic unless otherwise indicated. I am aware that there are significant penalties for submitting false information, including the possibility of fine and imprisonment. I am also aware that my company is under a continuing obligation to supplement its response to EPA's Request for Information if any additional information relevant to the matters addressed in EPA's Request for Information or the company's response thereto should become known or available to the company.

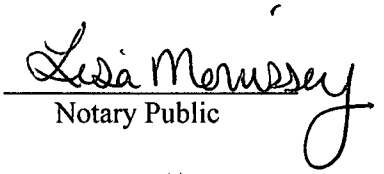
David H. Patrick
NAME (print or type)

Operations Counsel
TITLE (print or type)


SIGNATURE

Sworn to before me this

18th day of Dec. , 2002


Notary Public

Lisa M Morrissey
Notary Public, State of New York
No 01MO6047744
Qualified in Westchester County
Commission Expires September 11, 2006

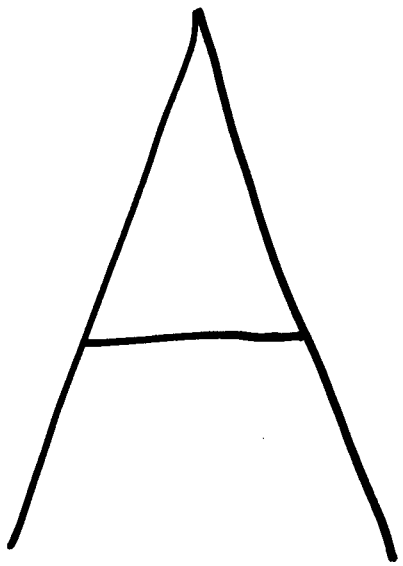


Exhibit A' in response to question 16

No. 333-80361-01

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT
Pursuant to Section 13 of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 29, 2001

Bottling Group, LLC
One Pepsi Way
Somers, New York 10589
(914) 767-6000

Incorporated in Delaware	**13-4042452**
(Jurisdiction of Incorporation)	***(I.R.S. Employer Identification No.)***

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934: None

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

PART I

Item 1. Business

Introduction

Bottling Group, LLC ("Bottling LLC") is the principal operating subsidiary of The Pepsi Bottling Group, Inc. ("PBG") and consists of substantially all of the operations and assets of PBG. Bottling LLC, which is fully consolidated by PBG, consists of bottling operations located in the United States, Canada, Spain, Greece and Russia. Prior to its formation, Bottling LLC was an operating unit of PepsiCo, Inc. ("PepsiCo"). When used in this Report, "Bottling LLC," "we," "us" and "our" each refers to Bottling Group, LLC.

PBG was incorporated in Delaware in January, 1999 as a wholly-owned subsidiary of PepsiCo to effect the separation of most of PepsiCo's company-owned bottling businesses. PBG became a publicly traded company on March 31, 1999. As of February 21, 2002, PepsiCo's ownership represented 37.9% of the outstanding common stock and 100% of the outstanding Class B common stock, together representing 42.9% of the voting power of all classes of PBG's voting stock.

PepsiCo and PBG contributed bottling businesses and assets used in the bottling business to Bottling LLC in connection with the formation of Bottling LLC. As a result of the contributions of assets, PBG owns 93% and PepsiCo owns the remaining 7%.

Recent Acquisition

On March 13, 2002, we acquired the operations and exclusive right to manufacture, sell and distribute Pepsi-Cola's international beverages in Turkey for a purchase price of approximately $100 million in cash and assumed debt.

Principal Products

We are the world's largest manufacturer, seller and distributor of Pepsi-Cola beverages. Pepsi-Cola beverages sold by us include PEPSI-COLA, DIET PEPSI, PEPSI ONE, PEPSI TWIST, MOUNTAIN DEW, MOUNTAIN DEW CODE RED, AMP, LIPTON BRISK, LIPTON'S ICED TEA, SLICE, MUG, AQUAFINA, STARBUCKS FRAPPUCCINO, FRUITWORKS, SIERRA MIST, DOLE and SOBE and, outside the U.S., 7UP, PEPSI MAX, MIRINDA and KAS. We have the exclusive right to manufacture, sell and distribute Pepsi-Cola beverages in all or a portion of 41 states, the District of Columbia, eight Canadian provinces, Spain, Greece and Russia. In some of our territories, we also have the right to manufacture, sell and distribute soft drink products of other companies, including DR PEPPER, 7UP and ALL SPORT in the U.S. Approximately 79% of our volume is sold in the United States, and the remaining 21% is sold in Canada, Spain, Greece and Russia. We have an extensive distribution system in the United States and Canada. In Russia, Spain and Greece, we use a combination of direct store distribution and distribution through wholesalers, depending on local marketplace considerations.

Raw Materials and Other Supplies

We purchase the concentrates to manufacture Pepsi-Cola beverages and other soft drink products from PepsiCo and other soft-drink companies.

In addition to concentrates, we purchase sweeteners, glass and plastic bottles, cans, closures, syrup containers, other packaging materials and carbon dioxide. We generally purchase our raw materials, other than concentrates, from multiple suppliers. PepsiCo acts as our agent for the purchase of such raw materials. The Pepsi beverage agreements provide that, with respect to the soft drink

products of PepsiCo, all authorized containers, closures, cases, cartons and other packages and labels may be purchased only from manufacturers approved by PepsiCo. There are no materials or supplies used by us that are currently in short supply. The supply or cost of specific materials could be adversely affected by price changes, strikes, weather conditions, governmental controls or other factors.

Patents, Trademarks, Licenses and Franchises

Our portfolio of beverage products includes some of the best recognized trademarks in the world and includes PEPSI-COLA, DIET PEPSI, PEPSI ONE, PEPSI TWIST, MOUNTAIN DEW, MOUNTAIN DEW CODE RED, AMP, LIPTON BRISK, LIPTON'S ICED TEA, SLICE, MUG, AQUAFINA, STARBUCKS FRAPPUCCINO, FRUITWORKS, SIERRA MIST, DOLE, SOBE and outside the U.S., 7UP, PEPSI MAX, MIRINDA and KAS. The majority of our volume is derived from brands licensed from PepsiCo or PepsiCo joint ventures. In some of our territories, we also have the right to manufacture, sell and distribute soft drink products of other companies, including DR PEPPER, 7UP and ALL SPORT in the U.S.

We conduct our business primarily pursuant to PBG's beverage agreements with PepsiCo. Although Bottling LLC is not a direct party to these agreements, as the principal operating subsidiary of PBG, it enjoys certain rights and is subject to certain obligations as described below. These agreements give us the exclusive right to market, distribute, and produce beverage products of PepsiCo in authorized containers in specified territories.

Set forth below is a description of the Pepsi beverage agreements and other bottling agreements from which we benefit and under which we are obligated as the principal operating subsidiary of PBG.

Terms of the Master Bottling Agreement. The Master Bottling Agreement under which we manufacture, package, sell and distribute the cola beverages bearing the PEPSI-COLA and PEPSI trademarks was entered into in March of 1999. The Master Bottling Agreement gives us the exclusive and perpetual right to distribute cola beverages for sale in specified territories in authorized containers of the nature currently used by us. The Master Bottling Agreement provides that we will purchase our entire requirements of concentrates for the cola beverages from PepsiCo at prices, and on terms and conditions, determined from time to time by PepsiCo. PepsiCo may determine from time to time what types of containers to authorize for use by us. PepsiCo has no rights under the Master Bottling Agreement with respect to the prices at which we sell our products.

Under the Master Bottling Agreement we are obligated to:

(1) maintain such plant and equipment, staff, and distribution and vending facilities that are capable of manufacturing, packaging and distributing the cola beverages in sufficient quantities to fully meet the demand for these beverages in our territories;

(2) undertake adequate quality control measures prescribed by PepsiCo;

(3) push vigorously the sale of the cola beverages in our territories;

(4) increase and fully meet the demand for the cola beverages in our territories;

(5) use all approved means and spend such funds on advertising and other forms of marketing beverages as may be reasonably required to meet the objective; and

(6) maintain such financial capacity as may be reasonably necessary to assure performance under the Master Bottling Agreement by us.

The Master Bottling Agreement requires us to meet annually with PepsiCo to discuss plans for the ensuing year and the following two years. At such meetings, we are obligated to present plans that set out in reasonable detail our marketing plan, our management plan and advertising plan with respect to the cola beverages for the year. We must also present a financial plan showing that we have the financial capacity to perform our duties and obligations under the Master Bottling Agreement for that year, as well as sales, marketing, advertising and capital expenditure plans for the two years following such year. PepsiCo has the right to approve such plans, which approval shall not be unreasonably withheld. In 2001, PepsiCo approved our annual plan.

If we carry out our annual plan in all material respects, we will be deemed to have satisfied our obligations to push vigorously the sale of the cola beverages, increase and fully meet the demand for the cola beverages in our territories and maintain the financial capacity required under the Master Bottling Agreement. Failure to present a plan or carry out approved plans in all material respects would constitute an event of default that, if not cured within 120 days of notice of the failure, would give PepsiCo the right to terminate the Master Bottling Agreement.

If we present a plan that PepsiCo does not approve, such failure shall constitute a primary consideration for determining whether we have satisfied our obligations to maintain our financial capacity, push vigorously the sale of the cola beverages and increase and fully meet the demand for the cola beverages in our territories.

If we fail to carry out our annual plan in all material respects in any segment of our territory, whether defined geographically or by type of market or outlet, and if such failure is not cured within six months of notice of the failure, PepsiCo may reduce the territory covered by the Master Bottling Agreement by eliminating the territory, market or outlet with respect to which such failure has occurred.

PepsiCo has no obligation to participate with us in advertising and marketing spending, but it may contribute to such expenditures and undertake independent advertising and marketing activities, as well as cooperative advertising and sales promotion programs that would require our cooperation and support. Although PepsiCo has advised us that it intends to continue to provide cooperative advertising funds, it is not obligated to do so under the Master Bottling Agreement.

The Master Bottling Agreement provides that PepsiCo may in its sole discretion reformulate any of the cola beverages or discontinue them, with some limitations, so long as all cola beverages are not discontinued. PepsiCo may also introduce new beverages under the PEPSI-COLA trademarks or any modification thereof. If that occurs, we will be obligated to manufacture, package, distribute and sell such new beverages with the same obligations as then exist with respect to other cola beverages. We are prohibited from producing or handling cola products, other than those of PepsiCo, or products or packages that imitate, infringe or cause confusion with the products, containers or trademarks of PepsiCo. The Master Bottling Agreement also imposes requirements with respect to the use of PepsiCo's trademarks, authorized containers, packaging and labeling.

If we acquire control, directly or indirectly, of any bottler of cola beverages, we must cause the acquired bottler to amend its bottling appointments for the cola beverages to conform to the terms of the Master Bottling Agreement.

Under the Master Bottling Agreement, PepsiCo has agreed not to withhold approval for any acquisition of rights to manufacture and sell PEPSI trademarked cola beverages within a specific area—currently representing approximately 13.2% of PepsiCo's U.S. bottling system in terms of volume—if we have successfully negotiated the acquisition and, in PepsiCo's reasonable judgment, satisfactorily performed our obligations under the Master Bottling Agreement. We have agreed not to

acquire or attempt to acquire any rights to manufacture and sell PEPSI trademarked cola beverages outside of that specific area without PepsiCo's prior written approval.

The Master Bottling Agreement is perpetual, but may be terminated by PepsiCo in the event of our default. Events of default include:

(1) PBG's insolvency, bankruptcy, dissolution, receivership or the like;

(2) any disposition of any voting securities of one of our bottling subsidiaries or substantially all of our bottling assets without the consent of PepsiCo;

(3) PBG's entry into any business other than the business of manufacturing, selling or distributing non-alcoholic beverages or any business which is directly related and incidental to such beverage business; and

(4) any material breach under the contract that remains uncured for 120 days after notice by PepsiCo.

An event of default will also occur if any person or affiliated group acquires any contract, option, conversion privilege, or other right to acquire, directly or indirectly, beneficial ownership of more than 15% of any class or series of PBG's voting securities without the consent of PepsiCo. As of February 21, 2002, no shareholder of PBG, other than PepsiCo, holds more than 7.0% of PBG's Common Stock.

PBG is prohibited from assigning, transferring or pledging the Master Bottling Agreement, or any interest therein, whether voluntarily, or by operation of law, including by merger or liquidation, without the prior consent of PepsiCo.

The Master Bottling Agreement was entered into by PBG in the context of its separation from PepsiCo and, therefore, its provisions were not the result of arm's-length negotiations. Consequently, the agreement contains provisions that are less favorable to us than the exclusive bottling appointments for cola beverages currently in effect for independent bottlers in the United States.

Terms of the Non-Cola Bottling Agreements. The beverage products covered by the non-cola bottling agreements are beverages licensed to PBG by PepsiCo, consisting of MOUNTAIN DEW, DIET MOUNTAIN DEW, MOUNTAIN DEW CODE RED, SLICE, SIERRA MIST, AQUAFINA, FRUITWORKS, MUG root beer and cream soda. The non-cola bottling agreements contain provisions that are similar to those contained in the Master Bottling Agreement with respect to pricing, territorial restrictions, authorized containers, planning, quality control, transfer restrictions, term, and related matters. PBG's non-cola bottling agreements will terminate if PepsiCo terminates PBG's Master Bottling Agreement. The exclusivity provisions contained in the non-cola bottling agreements would prevent us from manufacturing, selling or distributing beverage products which imitate, infringe upon, or cause confusion with, the beverage products covered by the non-cola bottling agreements. PepsiCo may also elect to discontinue the manufacture, sale or distribution of a non-cola beverage and terminate the applicable non-cola bottling agreement upon six months notice to PBG.

PBG also has agreements with PepsiCo granting PBG exclusive rights to distribute AMP and DOLE in all of PBG's territories and SOBE in certain specified territories. The distribution agreements contain provisions generally similar to those in the Master Bottling Agreement as to use of trademarks, trade names, approved containers and labels and causes for termination. Some of these beverage agreements have limited terms and, in most instances, prohibit us from dealing in similar beverage products.

Terms of the Master Syrup Agreement. The Master Syrup Agreement grants PBG the exclusive right to manufacture, sell and distribute fountain syrup to local customers in PBG's territories. The Master Syrup Agreement also grants PBG the right to act as a manufacturing and delivery agent for national accounts within PBG's territories that specifically request direct delivery without using a middleman. In addition, PepsiCo may appoint PBG to manufacture and deliver fountain syrup to national accounts that elect delivery through independent distributors. Under the Master Syrup Agreement, PBG will have the exclusive right to service fountain equipment for all of the national account customers within PBG's territories. The Master Syrup Agreement provides that the determination of whether an account is local or national is at the sole discretion of PepsiCo.

The Master Syrup Agreement contains provisions that are similar to those contained in the Master Bottling Agreement with respect to pricing, territorial restrictions with respect to local customers and national customers electing direct-to-store delivery only, planning, quality control, transfer restrictions and related matters. The Master Syrup Agreement has an initial term of five years and is automatically renewable for additional five-year periods unless PepsiCo terminates it for cause. PepsiCo has the right to terminate the Master Syrup Agreement without cause at the conclusion of the initial five-year period or at any time during a renewal term upon twenty-four months notice. In the event PepsiCo terminates the Master Syrup Agreement without cause, PepsiCo is required to pay us the fair market value of PBG's rights thereunder.

PBG's Master Syrup Agreement will terminate if PepsiCo terminates PBG's Master Bottling Agreement.

Terms of Other U.S. Bottling Agreements. The bottling agreements between PBG and other licensors of beverage products, including Cadbury Schweppes plc— for DR PEPPER, 7UP, SCHWEPPES and CANADA DRY, the Pepsi/Lipton Tea Partnership— for LIPTON BRISK and LIPTON'S ICED TEA, the North American Coffee Partnership—for STARBUCKS FRAPPUCCINO, and Monarch Company—for ALL SPORT, contain provisions generally similar to those in the Master Bottling Agreement as to use of trademarks, trade names, approved containers and labels, sales of imitations, and causes for termination. Some of these beverage agreements have limited terms and, in most instances, prohibit us from dealing in similar beverage products.

Terms of the Country Specific Bottling Agreements. The country specific bottling agreements contain provisions similar to those contained in the Master Bottling Agreement and the non-cola bottling agreements and, in Canada, the Master Syrup Agreement with respect to authorized containers, planning, quality control, transfer restrictions, causes for termination and related matters. These bottling agreements differ from the Master Bottling Agreement because, except for Canada, they include both fountain syrup and non-fountain beverages. These bottling agreements also differ from the Master Bottling Agreement with respect to term and contain certain provisions that have been modified to reflect the laws and regulations of the applicable country. For example, the bottling agreements in Spain do not contain a restriction on the sale and shipment of Pepsi-Cola beverages into our territory by others in response to unsolicited orders.

Seasonality

Our peak season is the warm summer months beginning with Memorial Day and ending with Labor Day. Approximately 75% of our operating income is typically earned during the second and third quarters. Over 80% of cash flow from operations is typically generated in the third and fourth quarters.

Competition

The carbonated soft drink market and the non-carbonated beverage market are highly competitive. Our competitors in these markets include bottlers and distributors of nationally advertised and marketed products, bottlers and distributors of regionally advertised and marketed products, as well as bottlers of private label soft drinks sold in chain stores. We compete primarily on the basis of advertising and marketing programs to create brand awareness, price and promotions, retail space management, customer service, consumer points of access, new products, packaging innovations and distribution methods. We believe that brand recognition, availability and consumer and customer goodwill are primary factors affecting our competitive position.

Governmental Regulation Applicable to Bottling LLC

Our operations and properties are subject to regulation by various federal, state and local governmental entities and agencies as well as foreign government entities. As a producer of food products, we are subject to production, packaging, quality, labeling and distribution standards in each of the countries where we have operations, including, in the United States, those of the federal Food, Drug and Cosmetic Act. The operations of our production and distribution facilities are subject to the laws and regulations of, among other agencies, the Department of Transportation, and various federal, state and local occupational and environmental laws. These laws and regulations include, in the United States, the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act and laws relating to the operation, maintenance of and financial responsibility for, fuel storage tanks. We believe that our current legal, operational and environmental compliance programs adequately address such concerns and that we are in substantial compliance with applicable laws and regulations. We do not anticipate making any material expenditures in connection with environmental remediation and compliance. However, compliance with, or any violation of, future laws or regulations could require material expenditures by us or otherwise have a material adverse effect on our business, financial condition and results of operations.

Bottle and Can Legislation

In all but a few of our United States and Canadian markets, we offer our bottle and can beverage products in non-refillable containers. Legislation has been enacted in certain states and Canadian provinces where we operate that generally prohibits the sale of certain beverages unless a deposit or levy is charged for the container. These include Connecticut, Delaware, Maine, Massachusetts, Michigan, New York, Oregon, California, British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia and Quebec.

Maine, Massachusetts and Michigan have statutes that require us to pay all or a portion of unclaimed container deposits to the state and California imposes a levy on beverage containers to fund a waste recovery system.

In addition to the Canadian deposit legislation described above, Ontario, Canada, currently has a regulation requiring that 30% of all soft drinks sold in Ontario be bottled in refillable containers. This regulation is currently being reviewed by the Canadian Ministry of the Environment.

The European Commission issued a packaging and packing waste directive that was incorporated into the national legislation of most member states. This has resulted in targets being set for the recovery and recycling of household, commercial and industrial packaging waste and imposes substantial responsibilities upon bottlers and retailers for implementation.

We are not aware of similar material legislation being proposed or enacted in any other areas served by us. We are unable to predict, however, whether such legislation will be enacted or what impact its enactment would have on our business, financial condition or results of operations.

Soft Drink Excise Tax Legislation

Specific soft drink excise taxes have been in place in certain states for several years. The states in which we operate that currently impose such a tax are West Virginia, Arkansas and Tennessee and, with respect to fountain syrup only, Washington. Value-added taxes on soft drinks vary in our territories located in Canada, Spain, Greece and Russia, but are consistent with the value-added tax rate for other consumer products.

We are not aware of any material soft drink taxes that have been enacted in any other market served by us. We are unable to predict, however, whether such legislation will be enacted or what impact its enactment would have on our business, financial condition or results of operations.

Trade Regulation

As a manufacturer, seller and distributor of bottled and canned soft drink products of PepsiCo and other soft drink manufacturers in exclusive territories in the United States and internationally, we are subject to antitrust laws. Under the Soft Drink Interbrand Competition Act, soft drink bottlers operating in the United States, such as us, may have an exclusive right to manufacture, distribute and sell a soft drink product in a geographic territory if the soft drink product is in substantial and effective competition with other products of the same class in the same market or markets. We believe that there is such substantial and effective competition in each of the exclusive geographic territories in which we operate.

California Carcinogen and Reproductive Toxin Legislation

A California law requires that any person who exposes another to a carcinogen or a reproductive toxin must provide a warning to that effect. Because the law does not define quantitative thresholds below which a warning is not required, virtually all manufacturers of food products are confronted with the possibility of having to provide warnings due to the presence of trace amounts of defined substances. Regulations implementing the law exempt manufacturers from providing the required warning if it can be demonstrated that the defined substances occur naturally in the product or are present in municipal water used to manufacture the product. We have assessed the impact of the law and its implementing regulations on our beverage products and have concluded that none of our products currently require a warning under the law. We cannot predict whether or to what extent food industry efforts to minimize the law's impact on food products will succeed. We also cannot predict what impact, either in terms of direct costs or diminished sales, imposition of the law may have.

Employees

As of December 29, 2001, we employed approximately 37,000 full-time workers, of whom approximately 30,000 were employed in the United States. Approximately 8,800 of our full-time workers in the United States are union members. We consider relations with our employees to be good and have not experienced significant interruptions of operations due to labor disagreements with the exception of a labor dispute at certain of our New Jersey facilities, which was successfully resolved on July 22, 2001.

Financial Information on Industry Segments and Geographic Areas

See Note 16 to Bottling LLC's Consolidated Financial Statements set forth in Item 8 below.

Item 2. Properties

We operate 70 soft drink production facilities worldwide, of which 62 are owned and 8 are leased. Of our 328 distribution facilities, 264 are owned and 64 are leased. We believe that our bottling, canning and syrup filling lines and our distribution facilities are sufficient to meet present needs. We also lease headquarters office space in Somers, New York.

We also own or lease and operate approximately 28,000 vehicles, including delivery trucks, delivery and transport tractors and trailers and other trucks and vans used in the sale and distribution of our soft drink products. We also own more than 1.2 million soft drink dispensing and vending machines.

With a few exceptions, leases of plants in the United States and Canada are on a long-term basis, expiring at various times, with options to renew for additional periods. Most international plants are leased for varying and usually shorter periods, with or without renewal options. We believe that our properties are in good operating condition and are adequate to serve our current operational needs.

Item 3. Legal Proceedings

From time to time we are a party to various litigation matters incidental to the conduct of our business. There is no pending or, to Bottling LLC's best knowledge, threatened legal proceeding to which we are a party that, in the opinion of management, is likely to have a material adverse effect on our future financial results.

Item 4. Submission of Matters to a Vote of Shareholders

None.

Executive Officers of the Registrant

Set forth below is information pertaining to the executive officers of Bottling LLC as of February 21, 2002:

John T. Cahill, 44, is the Principal Executive Officer of Bottling LLC. Mr. Cahill is currently the Chief Executive Officer of PBG. Previously, Mr. Cahill served as PBG's President and Chief Operating Officer from August 2000 to September 2001. Mr. Cahill has been a member of PBG's Board of Directors since January 1999 and served as PBG's Executive Vice President and Chief Financial Officer prior to becoming President and Chief Operating Officer in August 2000. He was Executive Vice President and Chief Financial Officer of the Pepsi-Cola Company from April 1998 until November 1998. Prior to that, Mr. Cahill was Senior Vice President and Treasurer of PepsiCo, having been appointed to that position in April 1997. In 1996, he became Senior Vice President and Chief Financial Officer of Pepsi-Cola North America. Mr. Cahill joined PepsiCo in 1989 where he held several other senior financial positions through 1996.

Alfred H. Drewes, 46, is the Principal Financial Officer of Bottling LLC. He is also the Senior Vice President and Chief Financial Officer of PBG. Appointed to this position in June 2001, Mr. Drewes previously served as Senior Vice President and Chief Financial Officer of Pepsi Beverages International ("PBI"). Mr. Drewes joined PepsiCo in 1982 as a financial analyst in New Jersey. During the next nine years, he rose through increasingly responsible finance positions within Pepsi-Cola North America in field operations and headquarters. In 1991, Mr. Drewes joined PBI as Vice President of Manufacturing Operations, with responsibility for the global concentrate supply organization.

Andrea L. Forster, 42, is the Principal Accounting Officer of Bottling LLC. She is also Vice President and Controller of PBG. In September 2000, Ms. Forster was also named Corporate Compliance Officer for PBG. Following several years with Deloitte Haskins and Sells, Ms. Forster joined PepsiCo in 1987 as a Senior Analyst in External Reporting. She progressed through a number of positions in the accounting and reporting functions and, in 1998, was appointed Assistant Controller of the Pepsi-Cola Company. She was named Assistant Controller of PBG in 1999.

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

There is no public trading market for the ownership interest of Bottling LLC.

Item 6. Selected Financial Data

SELECTED FINANCIAL AND OPERATING DATA

in millions

Fiscal years ended	2001	2000(1)	1999	1998	1997	1996
Statement of Operations Data:						
Net revenues	$8,443	$7,982	$7,505	$ 7,041	$ 6,592	$ 6,603
Cost of sales	4,580	4,405	4,296	4,181	3,832	3,844
Gross profit	3,863	3,577	3,209	2,860	2,760	2,759
Selling, delivery and administrative expenses	3,185	2,986	2,813	2,583	2,425	2,392
Unusual impairment and other charges and credits (2)	—	—	(16)	222	—	—
Operating income	678	591	412	55	335	367
Interest expense, net	78	89	129	157	160	163
Foreign currency loss (gain)	—	1	1	26	(2)	4
Minority interest	14	8	5	4	4	7
Income (loss) before income taxes	586	493	277	(132)	173	193
Income tax (benefit) expense (3)	(1)	22	4	(1)	1	6
Net income (loss)	$ 587	$ 471	$ 273	$ (131)	$ 172	$ 187
Balance Sheet Data (at period end):						
Total assets	$8,677	$8,228	$7,799	$ 7,227	$ 7,095	$ 6,947
Long-term debt:						
Allocation of PepsiCo long-term debt	—	—	—	2,300	2,300	2,300
Due to third parties	2,299	2,286	2,284	61	96	127
Total long-term debt	2,299	2,286	2,284	2,361	2,396	2,427
Minority interest	154	147	141	112	93	102
Accumulated other comprehensive loss	(416)	(253)	(222)	(238)	(184)	(102)
Owners' equity	4,596	4,321	3,928	3,283	3,336	3,128

(1) Our fiscal year 2000 results were impacted by the inclusion of an extra week in our fiscal year. The extra week increased net income by $12 million.

(2) Unusual impairment and other charges and credits comprises of the following:

- $45 million non-cash compensation charge in the second quarter of 1999.
- $53 million vacation accrual reversal in the fourth quarter of 1999.
- $8 million restructuring reserve reversal in the fourth quarter of 1999.
- $222 million charge related to the restructuring of our Russian bottling operations and the separation of Pepsi-Cola North America's concentrate and bottling organizations in the fourth quarter of 1998.

(3) Fiscal Year 2001 includes Canada tax law change benefits of $25 million.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

See "Management's Financial Review" set forth in Item 8 below.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

See "Management's Financial Review" set forth in Item 8 below.

Item 8. Financial Statements and Supplementary Data.

MANAGEMENT'S FINANCIAL REVIEW

OVERVIEW

Bottling Group, LLC (collectively referred to as "Bottling LLC," "we," "our" and "us") is the principal operating subsidiary of The Pepsi Bottling Group, Inc. ("PBG") and consists of substantially all of the operations and assets of PBG. Bottling LLC, which is 93% owned by PBG and is fully consolidated, consists of bottling operations located in the United States, Canada, Spain, Greece and Russia. Prior to our formation, we were an operating unit of PepsiCo, Inc. ("PepsiCo").

The following discussion and analysis covers the key drivers behind our success in 2001 and is broken down into six major sections. The first three sections provide an overview, discuss related party transactions, and focus on items that affect the comparability of historical or future results. The next two sections provide an analysis of our results of operations and liquidity and financial condition. The last section contains a discussion of our market risks and cautionary statements. The discussion and analysis throughout Management's Financial Review should be read in conjunction with the Consolidated Financial Statements and the related accompanying notes.

Constant Territory

We believe that constant territory performance results are the most appropriate indicators of operating trends and performance, particularly in light of our stated intention of acquiring additional bottling territories, and are consistent with industry practice. Constant territory operating results are derived by adjusting current year results to exclude significant current year acquisitions and adjusting prior year results to include the results of significant prior year acquisitions, as if they had occurred on the first day of the prior fiscal year. In addition, 2000 constant territory results exclude the impact from an additional week in our fiscal year ("53rd week"), which occurs every five or six years, as our fiscal year ends on the last Saturday in December. Constant territory results also exclude any unusual impairment and other charges and credits discussed below and in Note 4 to the Consolidated Financial Statements.

Use of EBITDA

EBITDA, which is computed as operating income plus the sum of depreciation and amortization, is a key indicator management and the industry use to evaluate operating performance. It is not, however, required under accounting principles generally accepted in the United States of America ("GAAP"), and should not be considered an alternative to measurements required by GAAP such as net income or cash flows. In addition, EBITDA excludes the impact of the non-cash portion of the unusual impairment and other charges and credits discussed below and in Note 4 to the Consolidated Financial Statements.

Critical Accounting Policies

The preparation of our Consolidated Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts in our Consolidated Financial Statements and the related accompanying notes. We use our best judgment based on our knowledge of existing facts and circumstances and actions that we may undertake in the future, as well as advice of external experts, in determining the estimates that affect our Consolidated Financial Statements. We have policies and procedures in place to ensure conformity with GAAP and we focus your attention on the following:

Revenue Recognition We recognize revenue when our products are delivered to customers. Sales terms do not allow a right of return unless product freshness dating has expired.

Allowance for Doubtful Accounts We determine our allowance for doubtful accounts based on an evaluation of the aging of our receivable portfolio. Our reserve contemplates our historical loss rate on receivables and the economic environment in which we operate.

Recoverability of Long-Lived Assets We review all long-lived assets, including intangible assets, when facts and circumstances indicate that the carrying value of the asset may not be recoverable. When necessary, we write down an impaired asset to its estimated fair value based on the best information available. Estimated fair value is generally based on either appraised value or measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows, which are discounted based on our weighted-average cost of capital.

Financial Instruments and Risk Management We use derivative instruments to hedge against the risk of adverse movements in the price of certain commodities and fuel used in our operations. Our use of derivative instruments is limited to interest rate swaps, forward contracts, futures and options on futures contracts. Our company policy prohibits the use of derivative instruments for trading or speculative purposes, and we have procedures in place to monitor and control their use. All derivative instruments are recorded at fair value as either assets or liabilities in our Consolidated Balance Sheets. The fair value of our derivatives is generally based on quoted market prices. The evaluation of hedge effectiveness is subject to assumptions based on terms and timing of underlying exposures.

Commitments and Contingencies We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Liabilities related to commitments and contingencies are recognized when a loss is probable and reasonably estimable.

For a more detailed discussion of our significant accounting policies, refer to Note 2 of our Consolidated Financial Statements.

RELATED PARTY TRANSACTIONS

At the time of PBG's initial public offering we entered into a number of agreements with PepsiCo. Although we are not a direct party to these contracts, as the principal operating subsidiary of PBG, we derive direct benefit from them. Accordingly, set forth below are the most significant agreements that govern our relationship with PepsiCo:

(1) the master bottling agreement for cola beverages bearing the "Pepsi-Cola" and "Pepsi" trademark in the United States; bottling and distribution agreements for non-cola products in

the United States, including Mountain Dew; and a master fountain syrup agreement in the United States;

(2) agreements similar to the master bottling agreement and the non-cola agreements for each specific country, including Canada, Spain, Greece and Russia, as well as a fountain syrup agreement similar to the master syrup agreement for Canada;

(3) a shared services agreement whereby PepsiCo provides us or we provide PepsiCo with certain administrative support, including procurement of raw materials, transaction processing, such as accounts payable and credit and collection, certain tax and treasury services, and information technology maintenance and systems development. The amounts paid or received under this contract are equal to the actual costs incurred by the company providing the service. From 1998 through 2001, a PepsiCo affiliate provided casualty insurance to us; and

(4) transition agreements that provide certain indemnities to the parties, and provide for the allocation of tax and other assets, liabilities,and obligations arising from periods prior to the initial public offering. Under our tax separation agreement, PepsiCo maintains full control and absolute discretion for any combined or consolidated tax filings for tax periods ending on or before the initial public offering. PepsiCo has contractually agreed to act in good faith with respect to all tax audit matters affecting us. In addition, PepsiCo has agreed to use their best efforts to settle all joint interests in any common audit issue on a basis consistent with prior practice.

We purchase concentrate from PepsiCo that is used in the production of carbonated soft drinks and other ready-to-drink beverages. The price of concentrate is determined annually by PepsiCo at its sole discretion. We also produce or distribute other products and purchase finished goods and concentrate through various arrangements with PepsiCo or PepsiCo joint ventures. We reflect such purchases in cost of sales.

We share a business objective with PepsiCo of increasing the availability and consumption of Pepsi-Cola beverages. Accordingly, PepsiCo, at its sole discretion, provides us with various forms of marketing support to promote its beverages. This support covers a variety of initiatives, including marketplace support, marketing programs, capital equipment investment, and shared media expense. Based on the objective of the programs and initiatives, we record marketing support as an adjustment to net revenues or as a reduction of selling, delivery and administrative expense. There are no conditions or other requirements that could result in a repayment of marketing support received.

We manufacture and distribute fountain products and provide fountain equipment service to PepsiCo customers in some territories in accordance with the Pepsi beverage agreements. Amounts received from PepsiCo for these transactions are offset by the cost to provide these services and are reflected in selling, delivery and administrative expenses. We pay a royalty fee to PepsiCo for the Aquafina trademark.

Refer to the Items That Affect Historical or Future Comparability section of Management's Financial Review for further discussions of concentrate supply and bottler incentives. In addition, refer to Note 2 of our Consolidated Financial Statements for further discussions on accounting for bottler incentives and Note 17 for further discussions on our relationship with PepsiCo.

ITEMS THAT AFFECT HISTORICAL OR FUTURE COMPARABILITY

New Accounting Standards

During 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 141, "Business Combinations," which requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001, and SFAS 142, "Goodwill and Other Intangible Assets," which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment. Effective the first day of fiscal year 2002 we will no longer amortize goodwill and certain franchise rights, but will evaluate them for impairment annually. We have completed the initial impairment review required by SFAS 142 and have determined that our intangible assets are not impaired. The adoption of SFAS 142 will reduce our fiscal year 2002 amortization expense by approximately $128 million.

In addition, during 2001 the FASB also issued SFAS 143, "Accounting for Asset Retirement Obligations" and SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It requires that we recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS 144 superseded SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and Accounting Principles Board Opinion 30, "Reporting the Results of Operations – Reporting the Effects of a Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 establishes a single accounting model for the impairment of long-lived assets and broadens the presentation of discontinued operations to include more disposal transactions. SFAS 143 is effective for fiscal year 2003 and SFAS 144 is effective for fiscal year 2002 and we do not anticipate that the adoption of these statements will have a material impact on our Consolidated Financial Statements.

During 2000 and 2001, the Emerging Issues Task Force ("EITF") addressed various issues related to the income statement classification of certain promotional payments. In May 2000, the EITF reached a consensus on Issue 00-14, "Accounting for Certain Sales Incentives," addressing the recognition and income statement classification of various sales incentives. Among its requirements, the consensus will require the costs related to consumer coupons currently classified as marketing costs to be classified as a reduction of revenue. In January 2001, the EITF reached a consensus on Issue 00-22, "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." EITF 00-22 requires that certain volume-based cash rebates to customers currently recognized as marketing costs be classified as a reduction of revenue. In April 2001, the EITF reached a consensus on Issue 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." EITF 00-25 addresses the income statement classification of consideration, other than that directly addressed in EITF 00-14, from a vendor to a reseller or another party that purchases the vendor's products. In November 2001, the EITF codified Issues 00-14, 00-22 and 00-25 as Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." EITF 00-22 was effective for the first quarter of 2001 and was not material to our Consolidated Financial Statements. The remainder of EITF 01-9 is effective for 2002 and we do not anticipate that the adoption will have a material impact on our Consolidated Financial Statements.

Our Consolidated Financial Statements reflect the implementation of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, on the first day of fiscal year 2001. SFAS 133, which was issued in 1998, establishes accounting and reporting standards for hedging activities and derivative instruments, including certain derivative instruments embedded in other contracts, which are collectively referred to as derivatives. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value.

Asset Lives

At the beginning of fiscal year 2000, we changed the estimated useful lives of certain categories of assets primarily to reflect the success of our preventive maintenance programs in extending the useful lives of these assets. The changes, which are detailed in Note 3 to the Consolidated Financial Statements, lowered total depreciation cost by approximately $69 million in 2000 as compared to 1999. The estimated useful lives of our assets were the same in 2001 and 2000.

Fiscal Year

Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. Fiscal years 2001 and 1999 consisted of 52 weeks while fiscal year 2000 consisted of 53 weeks. The following table illustrates the approximate dollar and percentage point impacts that the extra week had on our operating results:

(dollars in millions)		Percentage Points	
	Dollars	2001 vs. 2000	2000 vs. 1999
Volume	N/A	(2)	2
Net Revenues	$ 113	(1)	2
Net Income	$ 12	(3)	4
EBITDA	$ 14	(2)	2

PBG's Initial Public Offering

PBG was incorporated in Delaware in January 1999 and, prior to its formation, PBG was an operating unit of PepsiCo. PBG became a public company through an initial public offering on March 31, 1999. PBG's initial public offering consisted of 100 million shares of common stock sold to the public, equivalent to 65% of its outstanding common stock, leaving PepsiCo the owner of the remaining 35% of outstanding common stock. As a result of PBG's share repurchase program, PepsiCo's ownership has increased to 37.7% of the outstanding common stock and 100% of PBG's Class B common stock, together representing 42.8% of the voting power of all classes of PBG's voting stock at December 29, 2001. In addition, PepsiCo owns 7% of the equity of Bottling LLC, as of December 29, 2001. We are fully consolidated by PBG.

For the period prior to PBG's initial public offering and the formation of Bottling LLC, we prepared our Consolidated Financial Statements as a "carve-out" from the financial statements of PepsiCo using the historical results of operations and assets and liabilities of our business. Certain costs reflected in the Consolidated Financial Statements may not necessarily be indicative of the costs that we would have incurred had we operated as an independent, stand-alone entity from the first day of fiscal year 1999. These costs include an allocation of PepsiCo's corporate overhead and interest expense:

- We included overhead related to PepsiCo's corporate administrative functions based on a specific identification of PepsiCo's administrative costs relating to the bottling operations and, to the extent that such identification was not practicable, based upon the percentage of our revenues to PepsiCo's consolidated net revenues. These costs are included in selling, delivery and administrative expenses in our Consolidated Statements of Operations.
- We allocated $2.3 billion of PepsiCo's debt to our business and charged interest expense on this debt using PepsiCo's weighted-average interest rate. Once we issued $2.3 billion of third-party debt in the first quarter of 1999, our actual interest rates were used to determine interest expense for the remainder of the year.

The amounts of the historical allocations described above are as follows:

(dollars in millions)	1999

Corporate overhead expense	$ 3
Interest expense	$ 16
PepsiCo's weighted-average interest rate	5.8%

Unusual Impairment and Other Charges and Credits

Our operating results were affected by the following unusual charges and credits:

(dollars in millions)	1999
Non-cash compensation charge	$ 45
Vacation policy change	(53)
Asset impairment and restructuring charges	(8)
	$ (16)

- Non-cash Compensation Charge

  In connection with the completion of PBG's initial public offering, PepsiCo vested substantially all non-vested PepsiCo stock options held by our employees. As a result, we incurred a $45 million non-cash compensation charge in the second quarter of 1999, equal to the difference between the market price of the PepsiCo capital stock and the exercise price of these options at the vesting date.

- Vacation Policy Change

  As a result of changes to our employee benefit and compensation plans in 1999, employees now earn vacation time evenly throughout the year based upon service rendered. Previously, employees were fully vested at the beginning of each year. As a result of this change, we reversed an accrual of $53 million into income in 1999.

- Asset Impairment and Restructuring Charge

  In the fourth quarter of 1999, $8 million of the remaining restructuring reserve recorded in 1998 relating to an asset impairment and restructuring in our Russian operations, was reversed into income. The reversal was necessitated as actual costs incurred to renegotiate manufacturing and leasing contracts in Russia and to reduce the number of employees were less than the amounts originally estimated.

Comparability of our operating results may also be affected by the following:

Concentrate Supply

We buy concentrate, the critical flavor ingredient for our products, from PepsiCo, its affiliates and other brand owners who are the sole authorized suppliers. Concentrate prices are typically determined annually.

In February 2001, PepsiCo announced an increase of approximately 3% in the price of U.S. concentrate. PepsiCo has recently announced a further increase of approximately 3%, effective February 2002. Amounts paid or payable to PepsiCo and its affiliates for concentrate were $1,584 million, $1,507 million and $1,418 million in 2001, 2000 and 1999, respectively.

Bottler Incentives

PepsiCo and other brand owners provide us with various forms of marketing support. The level of this support is negotiated annually and can be increased or decreased at the discretion of the brand owners. This marketing support is intended to cover a variety of programs and initiatives, including direct marketplace support, capital equipment funding and shared media, and advertising support. Direct marketplace support is primarily funding by PepsiCo and other brand owners of sales discounts

and similar programs, and is recorded as an adjustment to net revenues. Capital equipment funding is designed to support the purchase and placement of marketing equipment and is recorded as a reduction to selling, delivery and administrative expenses. Shared media and advertising support is recorded as a reduction to advertising and marketing expense within selling, delivery and administrative expenses. There are no conditions or other requirements that could result in a repayment of marketing support received.

The total bottler incentives we received from PepsiCo and other brand owners were $598 million, $566 million and $563 million for 2001, 2000 and 1999, respectively. Of these amounts, we recorded $293 million, $277 million and $263 million for 2001, 2000 and 1999, respectively, in net revenues, and the remainder as a reduction of selling, delivery and administrative expenses. The amount of our bottler incentives received from PepsiCo was more than 90% of our total bottler incentives in each of the three years, with the balance received from the other brand owners.

Employee Benefit Plan Changes

We made several changes to our employee benefit plans that took effect in fiscal year 2000. The changes were made to our vacation policy, pension and retiree medical plans and included some benefit enhancements as well as cost containment provisions. These changes did not have a significant impact on our financial results in 2001 or 2000.

In 1999, we implemented a matching company contribution to our 401(k) plan that began in 2000. The match is dependent upon the employee's contribution and years of service. The matching company contribution was approximately $17 million and $15 million in 2001 and 2000, respectively.

In the fourth quarter of 1999 we recognized a $16 million compensation charge related to full-year 1999 performance. This expense was one-time in nature and was for the benefit of our management employees, reflecting our successful operating results as well as providing certain incentive-related features.

Bottling Group, LLC
Consolidated Statements of Operations
(in millions)

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

	2001	2000	1999
Net Revenues	$8,443	$7,982	$7,505
Cost of sales	4,580	4,405	4,296
Gross Profit	3,863	3,577	3,209
Selling, delivery and administrative expenses	3,185	2,986	2,813
Unusual impairment and other charges and credits	—	—	(16)
Operating Income	678	591	412
Interest expense	132	136	140
Interest income	54	47	11
Foreign currency loss	—	1	1
Minority interest	14	8	5
Income Before Income Taxes	586	493	277
Income tax expense before rate change	24	22	4
Income tax rate change benefit	(25)	—	—
Net Income	$ 587	$ 471	$ 273

See accompanying notes to Consolidated Financial Statements.

MANAGEMENT'S FINANCIAL REVIEW

RESULTS OF OPERATIONS

	Fiscal 2001 vs. 2000*		Fiscal 2000 vs. 1999*	
	Reported Change	Constant Territory Change	Reported Change	Constant Territory Change
EBITDA	12%	13%	18%	16%
Volume	2%	3%	3%	1%
Net Revenue per Case	3%	3%	3%	3%

* Fiscal years 2001 and 1999 consisted of 52 weeks while fiscal year 2000 consisted of 53 weeks.

EBITDA

On a reported basis, EBITDA was $1,192 million in 2001, representing a 12% increase over 2000, including an approximate 2 percentage point negative impact from the 53rd week in 2000. Constant territory growth of 13% for 2001 was a reflection of higher pricing, an increased mix of higher margin cold drink volume, and solid volume growth in the U.S., as well as continued growth in our operations outside the U.S., particularly in Russia. These increases were partially offset by investments in our cold drink infrastructure.

In 2000, reported EBITDA was $1,062 million, representing an 18% increase over 1999, with the 53rd week contributing approximately 2 percentage points of the growth. Constant territory EBITDA was 16% higher than 1999, driven by continued pricing improvements in our take-home segment, mix shifts to higher-margin cold drink volume, favorable cost of sales trends, and improved results outside the United States.

Volume

Our worldwide physical case volume grew 2% in 2001, including an approximate 2 percentage point negative impact from the 53rd week in 2000. Constant territory volume growth was 3% in 2001, reflecting U.S. growth of more than 1% and 10% growth outside the United States. U.S. growth was led by the introductions of Mountain Dew Code Red and Pepsi Twist, expanded distribution of Sierra Mist, strong growth in Aquafina, as well as the integration of SoBe in the majority of our markets. This growth was partially offset by declines in brand Pepsi. New product innovation and consistent in-store execution resulted in positive cold drink and take-home volume growth in the United States. In addition, take-home volume growth in the U.S. benefited from significant growth in mass merchandiser volume. Outside the U.S., all countries delivered solid volume growth in 2001, led by our operations in Russia. Volume growth in Russia was driven by the introduction of Mountain Dew and continued growth of Aqua Minerale, our water product, and Fiesta, our value brand beverage.

Our reported worldwide physical case volume grew 3% in 2000, with the 53rd week contributing approximately 2 percentage points of the growth. Worldwide constant territory volume grew 1% in 2000 with flat volume growth from our U.S. operations and 7% growth from our operations outside the United States. In the U.S., volume results reflected growth in our cold drink segment and the favorable impact of the launch of Sierra Mist in the fourth quarter of 2000, offset by declines in our take-home business. Our cold drink trends reflected our successful placement of additional cold drink equipment in the United States. Take-home volume remained lower for the year reflecting the effect of our price increases in that segment. Our volume growth outside the U.S. was led by Russia where we have reestablished brand Pepsi, introduced Fiesta, and continued to increase distribution of Aqua Minerale. Partially offsetting the growth in Russia were volume declines in Canada resulting from significant take-home price increases in that country.

Net Revenues

Reported net revenues were $8,443 million in 2001, representing a 6% increase over the prior year, including an approximate 1 percentage point negative impact from the 53rd week in 2000. On a constant territory basis, net revenues increased by 6%, reflecting 3% volume growth and 3% growth in net revenue per case. Constant territory U.S. net revenues grew 6% consisting of 5% growth in net revenue per case and volume growth of more than 1%. U.S. net revenue per case results reflect higher pricing, primarily in foodstores, and an increased mix of higher-revenue cold drink volume from new product innovation and double-digit Aquafina growth. Constant territory net revenues outside the U.S. grew 7%, reflecting volume growth of 10%, offset by declines in net revenue per case of 3%. Excluding the negative impact from currency translations, net revenue per case growth was flat outside the U.S. and increased 4% worldwide.

Reported net revenues were $7,982 million in 2000, a 6% increase over the prior year, with the 53rd week contributing approximately 2 percentage points of the growth. On a constant territory basis, worldwide net revenues grew more than 4%, driven by a 1% volume increase and a 3% increase in net revenue per case. Constant territory net revenue per case growth was driven by the U.S., which grew 6%, reflecting higher pricing, particularly in our take-home segment, and an increased mix of higher-revenue cold drink volume. These results were partially offset by account level investment spending aimed at sustainable Aquafina and cold drink inventory gains in the marketplace. Outside the U.S., constant territory net revenues were down 1%, reflecting a 7% increase in volume, offset by an 8% decrease in net revenue per case. Excluding the negative impact from currency translations, net revenue per case decreased 1% outside the U.S. and increased 4% worldwide.

Cost of Sales

Cost of sales increased $175 million, or 4% in 2001, including an approximate 2 percentage point favorable impact from the 53rd week in 2000. On a constant territory basis, cost of sales increased 5% driven by a 3% increase in volume and a more than 1% increase in cost of sales per case. The increase in cost of sales per case reflects higher U.S. concentrate costs and mix shifts into higher cost packages and products, offset by country mix and favorable currency translations.

Cost of sales increased $109 million, or 3% in 2000, with the 53rd week contributing approximately 2 percentage points of the growth. On a per case basis, cost of sales was essentially flat in 2000. Included in cost of sales in 2000 were the favorable impacts from the change in our estimated useful lives of manufacturing assets, which totaled $34 million in 2000 and an approximate 1 percentage point favorable impact from currency translations. Excluding the effects of the change in asset lives and currency translations, cost of sales on a per case basis was more than 1% higher, as higher U.S. concentrate costs were partially offset by favorable packaging and sweetener costs, favorable country mix, and efficiencies in production.

Selling, Delivery and Administrative Expenses

Selling, delivery and administrative expenses grew $199 million, or 7%, over the comparable period in 2000, including an approximate 1 percentage point favorable impact from the 53rd week in 2000. Approximately half of the increase came from higher selling and delivery costs, specifically our continued investments in our U.S. and Canadian cold drink strategy including people, routes and equipment. Also contributing to the growth in selling, delivery and administrative expenses are higher advertising and marketing costs and higher costs associated with investments in our information technology systems.

Selling, delivery and administrative expenses increased $173 million, or 6% in 2000, with the 53rd week contributing approximately 1 percentage point of the growth. Included in selling, delivery and administrative expenses are the favorable impacts from the change in estimated useful lives of

certain selling and delivery assets, which lowered depreciation expense by $35 million, and currency translations, which lowered selling, delivery and administrative expense growth by approximately 1 percentage point in 2000. Excluding the effects of the change in asset lives, currency translations and the inclusion of the 53rd week, selling, delivery and administrative expenses were approximately 7% higher in 2000. Driving this increase were higher selling and delivery costs primarily reflecting our significant investment in our U.S. cold drink infrastructure that began in 1999 and continued through 2000. In addition, higher performance-related compensation costs contributed to the cost growth. Growth in administrative costs associated with the company matching contribution for our new 401(k) plan in 2000 was offset by a one-time, $16 million compensation charge in 1999.

Interest Expense

Fiscal year 2001 interest expense was $4 million lower than in 2000 due to a lower effective interest rate on our debt, which resulted from decreasing market interest rates in 2001. Fiscal year 2000 interest expense was $4 million lower than 1999 reflecting lower external debt outside the U.S.

Interest Income

Fiscal year 2001 interest income was $7 million higher than 2000 while 2000 interest income was $36 million higher than 1999. The increase in interest income for both years primarily reflects additional loans to PBG, which were used by PBG to pay for interest, taxes and share repurchases.

Minority Interest

PBG has a direct minority ownership in one of our subsidiaries. Accordingly, our Consolidated Financial Statements reflect PBG's share of consolidated net income as minority interest in our Consolidated Statements of Operations. The growth in minority interest expense over the last three years is due to higher earnings by our subsidiary over the same periods.

Income Tax Expense Before Rate Change

Bottling LLC is a limited liability company, taxable as a partnership for U.S. tax purposes and, as such, generally pays no U.S. federal or state income taxes. The federal and state distributable share of income, deductions and credits of Bottling LLC are allocated to Bottling LLC's owners based on percentage ownership. However, certain domestic and foreign affiliates pay income taxes in their respective jurisdictions. Such amounts are reflected in our Consolidated Statements of Operations.

Income Tax Rate Change Benefit

During 2001, the Canadian Government enacted legislation reducing federal and certain provincial corporate income tax rates. These rate changes reduced deferred tax liabilities associated with our operations in Canada, and resulted in one-time gains totaling $25 million in 2001.

Bottling Group, LLC
Consolidated Statements of Cash Flows

(dollars in millions)

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

	2001	2000	1999
Cash Flows—Operations			
Net income	$ 587	$ 471	$ 273
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	379	340	374
Amortization	135	131	131
Non-cash unusual impairment and other charges and credits	—	—	(16)
Other non-cash charges and credits, net	146	145	124
Changes in operating working capital, excluding effects of acquisitions:			
Accounts receivable	(28)	8	(30)
Inventories	(50)	11	3
Prepaid expenses and other current assets	(29)	(102)	3
Accounts payable and other current liabilities	56	22	45
Net change in operating working capital	(51)	(61)	21
Net Cash Provided by Operations	1,196	1,026	907
Cash Flows—Investments			
Capital expenditures	(593)	(515)	(560)
Acquisitions of bottlers	(52)	(26)	(176)
Sales of property, plant and equipment	6	9	22
Notes receivable from PBG, Inc	(310)	(268)	(259)
Other, net	(123)	(52)	(19)
Net Cash Used for Investments	(1,072)	(852)	(992)
Cash Flows—Financing			
Short-term borrowings—three months or less	50	12	(58)
Proceeds from long-term debt	—	—	2,276
Replacement of PepsiCo allocated debt	—	—	(2,300)
Payments of long-term debt	—	(9)	(90)
(Distributions to)/contributions from owners	(223)	(45)	416
Net Cash (Used for) Provided by Financing	(173)	(42)	244
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(7)	(4)	(5)
Net (Decrease) Increase in Cash and Cash Equivalents	(56)	128	154
Cash and Cash Equivalents—Beginning of Year	318	190	36
Cash and Cash Equivalents—End of Year	$ 262	$ 318	$ 190

See accompanying notes to Consolidated Financial Statements.

Bottling Group, LLC
Consolidated Balance Sheets

(in millions)

December 29, 2001 and December 30, 2000

	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	$ 262	$ 318
Accounts receivable, less allowance of $42 in 2001 and 2000	823	796
Inventories	331	281
Prepaid expenses and other current assets	115	154
Total Current Assets	1,531	1,549
Property, plant and equipment, net	2,543	2,358
Intangible assets, net	3,684	3,694
Notes receivable from PBG, Inc	837	527
Other assets	82	100
Total Assets	$8,677	$8,228
LIABILITIES AND OWNERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$ 977	$ 915
Short-term borrowings	77	26
Total Current Liabilities	1,054	941
Long-term debt	2,299	2,286
Other liabilities	406	346
Deferred income taxes	168	187
Minority interest	154	147
Total Liabilities	4,081	3,907
Owners' Equity		
Owners' net investment	5,012	4,574
Accumulated other comprehensive loss	(416)	(253)
Total Owners' Equity	4,596	4,321
Total Liabilities and Owners' Equity	$8,677	$8,228

See accompanying notes to Consolidated Financial Statements.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

Liquidity Prior to our Separation from PepsiCo and PBG's Initial Public Offering

We financed our capital investments and acquisitions through cash flow from operations and advances from PepsiCo prior to our separation from PepsiCo and PBG's initial public offering. Under PepsiCo's centralized cash management system, PepsiCo deposited sufficient cash in our bank accounts to meet our daily obligations, and withdrew excess funds from those accounts. These transactions are included in (distributions to)/contributions from owners in our Consolidated Statements of Cash Flows.

Liquidity After PBG's Initial Public Offering

Subsequent to PBG's initial public offering, we have financed our capital investments and acquisitions primarily through cash flow from operations. We believe that our future cash flow from operations and borrowing capacity will be sufficient to fund capital expenditures, acquisitions, dividends and working capital requirements.

Financing Transactions

On February 9, 1999, $1.3 billion of 5 5/8% senior notes and $1.0 billion of 5 3/8% senior notes which are guaranteed by PepsiCo. During the second quarter of 1999, we executed an interest rate swap converting 4% of our fixed-rate debt to floating-rate debt.

The proceeds from the above financing transactions were used to repay obligations to PepsiCo and fund acquisitions.

Capital Expenditures

We have incurred and will continue to incur capital costs to maintain and grow our infrastructure, including acquisitions and investments in developing market opportunities.

- Our business requires substantial infrastructure investments to maintain our existing level of operations and to fund investments targeted at growing our business. Capital infrastructure expenditures totaled $593 million, $515 million and $560 million during 2001, 2000 and 1999, respectively. We believe that capital infrastructure spending will continue to be significant, driven by our investments in the cold drink segment and capacity needs.
- We intend to continue to pursue acquisitions of independent PepsiCo bottlers in the U.S. and Canada, particularly in territories contiguous to our own, where they create shareholder value. These acquisitions will enable us to provide better service to our large retail customers, as well as to reduce costs through economies of scale. We also plan to evaluate international acquisition opportunities as they become available. Cash spending on acquisitions was $52 million, $26 million and $176 million in 2001, 2000 and 1999, respectively. In addition, PBG contributed $74 million of net assets relating to the acquisition of Pepsi-Cola Bottling of Northern California to us in 2001.

Cash Flows

Fiscal 2001 Compared to Fiscal 2000

Net cash provided by operating activities increased $170 million to $1,196 million in 2001, driven by strong EBITDA growth and the timing of casualty insurance payments, partially offset by higher working capital due to growth in our business.

Net cash used for investments increased by $220 million from $852 million in 2000 to $1,072 million in 2001, driven by increased loans made to PBG, increased capital expenditures and acquisition spending.

Net cash used for financing increased by $131 million to $173 million in 2001. This increase is primarily due to increased distributions to the owners.

Fiscal 2000 Compared to Fiscal 1999

Net cash provided by operating activities increased $119 million to $1,026 million in 2000 driven by strong EBITDA growth partially offset by the timing of casualty insurance payments in 2000, which significantly contributed to our unfavorable change in operating working capital.

Net cash used by investments decreased by $140 million from $992 million in 1999 to $852 million in 2000, primarily due to acquisition spending, which was $150 million lower in 2000. Capital expenditures decreased by $45 million, or 8%, as increases in the U.S. associated with our cold drink strategy were offset by decreases outside the United States.

Net cash (used for) provided by financing decreased from a source of cash of $244 million in 1999 to a use of cash of $42 million in 2000. The decrease reflects $45 million of owners' distributions in 2000 as compared to owner contributions of $461 million in 1999, which were used in 1999 to fund acquisitions and pay down debt.

MARKET RISKS AND CAUTIONARY STATEMENTS

Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, the financial position of the company routinely is subject to a variety of risks. These risks include the risk associated with the price of commodities purchased and used in our business, interest rate on outstanding debt and currency movements of non-U.S. dollar denominated assets and liabilities. We are also subject to the risks associated with the business environment in which we operate, including the collectibility of accounts receivable. We regularly assess all of these risks and have policies and procedures in place to protect against the adverse effects of these exposures.

Our objective in managing our exposure to fluctuations in commodity prices, interest rates, and foreign currency exchange rates is to minimize the volatility of earnings and cash flows associated with changes in the applicable rates and prices. To achieve this objective, we primarily enter into commodity forward contracts, commodity futures and options on futures contracts and interest rate swaps. Our company policy prohibits the use of derivative instruments for trading or speculative purposes, and we have procedures in place to monitor and control their use.

A sensitivity analysis has been prepared to determine the effects that market risk exposures may have on the fair values of our debt and other financial instruments. To perform the sensitivity analysis, we assessed the risk of loss in fair values from the hypothetical changes in commodity prices, interest rates, and foreign currency exchange rates on market-sensitive instruments. Information provided by this sensitivity analysis does not necessarily represent the actual changes in fair value that we would incur under normal market conditions because, due to practical limitations, all variables other than the specific market risk factor were held constant. In addition, the results of the analysis are constrained by the fact that certain items are specifically excluded from the analysis, while the financial instruments that relate to the financing or hedging of those items are included. As a result, the reported changes in the values of some financial instruments that affect the results of the sensitivity analysis are not matched with the offsetting changes in the values of the items that those instruments are designed to finance or hedge.

The results of the sensitivity analysis at December 29, 2001 are as follows:

Commodity Price Risk

We are subject to market risks with respect to commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We use futures contracts and options on futures in the normal course of business to hedge

anticipated purchases of aluminum and fuel used in our operations. With respect to commodity price risk, we currently have various contracts outstanding for aluminum and fuel oil purchases in 2002, which establish our purchase price within defined ranges. These contracts have notional amounts of $573 million and $557 million at December 29, 2001 and December 30, 2000, respectively. These notional amounts do not represent amounts exchanged by the parties and thus are not a measure of our exposure; rather, they are used as a basis to calculate the amounts due under the agreements. We estimate that a 10% decrease in commodity prices with all other variables held constant would have resulted in a decrease in the fair value of our financial instruments of $15 million and $18 million at December 29, 2001 and December 30, 2000, respectively.

Interest Rate Risk

The fair value of our fixed-rate long-term debt is sensitive to changes in interest rates. Interest rate changes would result in gains or losses in the fair market value of our debt representing differences between market interest rates and the fixed rate on the debt. With respect to this market risk, we currently have an interest rate swap converting 4% of our fixed-rate debt to floating-rate debt. This interest rate swap has a notional value of $100 million at December 29, 2001 and December 30, 2000. We estimate that a 10% decrease in interest rates with all other variables held constant would have resulted in a net increase in the fair value of our financial instruments, both our fixed rate debt and our interest rate swap, of $52 million and $66 million at December 29, 2001 and December 30, 2000, respectively.

Foreign Currency Exchange Rate Risk

In 2001, approximately 15% of our net revenues came from Canada, Spain, Greece and Russia. Social, economic, and political conditions in these international markets may adversely affect our results of operations, cash flows, and financial condition. The overall risks to our international businesses include changes in foreign governmental policies, and other political or economic developments. These developments may lead to new product pricing, tax or other policies, and monetary fluctuations that may adversely impact our business. In addition, our results of operations and the value of the foreign assets are affected by fluctuations in foreign currency exchange rates.

As currency exchange rates change, translation of the statements of operations of our businesses outside the U.S. into U.S. dollars affects year-over-year comparability. We have not hedged currency risks because cash flows from international operations have generally been reinvested locally, nor historically have we entered into hedges to minimize the volatility of reported earnings. We estimate that a 10% change in foreign exchange rates with all other variables held constant would have affected reported income before income taxes by less than $30 million in 2001 and 2000.

Foreign currency gains and losses reflect translation gains and losses arising from the re-measurement into U.S. dollars of the net monetary assets of businesses in highly inflationary countries and transaction gains and losses. Russia is considered a highly inflationary economy for accounting purposes.

Euro

We have successfully executed our plans to address the issues raised by the Euro currency conversion. These issues include, among others, the need to adapt computer and financial systems, business processes and equipment, such as vending machines, to accommodate Euro-denominated transactions and the impact of one common currency on cross-border pricing. We have experienced no business interruption as a result of the issuance and circulation of Euro-denominated bills and coins beginning January 1, 2002. Our financial systems and processes have been successfully converted to accommodate the Euro. Due to numerous uncertainties, we cannot reasonably estimate the long-term effects one common currency may have on pricing, costs and the resulting impact, if any, on the financial condition or results of operations.

Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this annual report on Form 10-K may constitute forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on currently available competitive, financial and economic data and Bottling Group, LLC's operating plans. These statements involve a number of risks, uncertainties and other factors that could cause actual results to be materially different. Among the events and uncertainties that could adversely affect future periods are lower-than-expected net pricing resulting from marketplace competition, material changes from expectations in the cost of raw materials and ingredients, an inability to achieve the expected timing for returns on cold drink equipment and related infrastructure expenditures, material changes in expected levels of marketing support payments from PepsiCo, an inability to meet projections for performance in newly acquired territories, and unfavorable interest rate and currency fluctuations.

Bottling Group, LLC
Consolidated Statements of Changes in Owners' Equity

(in millions)

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

	Owners' Net Investment	Accumulated Other Comprehensive Loss	Total	Comprehensive Income/(Loss)
Balance at December 26, 1998	$ 3,521	$ (238)	$ 3,283	
Comprehensive income:				
Net income	273	—	273	$ 273
Currency translation adjustment	—	(3)	(3)	(3)
Minimum pension liability adjustment	—	19	19	19
Total comprehensive income				$ 289
Owner contributions	356	—	356	
Balance at December 25, 1999	4,150	(222)	3,928	
Comprehensive income:				
Net income	471	—	471	$ 471
Currency translation adjustment	—	(31)	(31)	(31)
Total comprehensive income				$ 440
Cash distributions to owners	(45)	—	(45)	
Non-cash distribution to owner	(2)	—	(2)	
Balance at December 30, 2000	4,574	(253)	4,321	
Comprehensive income:				
Net income	587	—	587	$ 587
Currency translation adjustment	—	(48)	(48)	(48)
Minimum pension liability adjustment	—	(96)	(96)	(96)
FAS 133 adjustment	—	(19)	(19)	(19)
Total comprehensive income				$ 424
Cash distributions to owners	(223)	—	(223)	
Non-cash contribution from owner	74	—	74	
Balance at December 29, 2001	$5,012	$ (416)	$4,596	

See accompanying notes to Consolidated Financial Statements.

Note 1—Basis of Presentation

Bottling Group, LLC (collectively referred to as "Bottling LLC," "we," "our" and "us") is the principal operating subsidiary of The Pepsi Bottling Group, Inc. ("PBG") and consists of substantially all of the operations and assets of PBG. Bottling LLC, which is consolidated by PBG, consists of bottling operations located in the United States, Canada, Spain, Greece and Russia. For the periods presented prior to our formation, we were an operating unit of PepsiCo, Inc. ("PepsiCo").

PBG was incorporated in Delaware in January 1999 and, prior to its formation, PBG was an operating unit of PepsiCo. PBG's initial public offering consisted of 100 million shares of common stock sold to the public on March 31, 1999, equivalent to 65% of its outstanding common stock, leaving PepsiCo the owner of the remaining 35% of outstanding common stock. As a result of PBG's share repurchase program, PepsiCo's ownership has increased to 37.7% of the outstanding common stock and 100% of the outstanding Class B common stock, together representing 42.8% of the voting power of all classes of our voting stock at December 29, 2001.

In addition, in conjunction with its initial public offering, PBG and PepsiCo contributed bottling businesses and assets used in the bottling businesses to Bottling LLC. As a result of the contribution of these assets, PBG owns 93% of Bottling LLC and PepsiCo owns the remaining 7%.

The accompanying Consolidated Financial Statements include information that has been presented on a "carve-out" basis for the periods prior to PBG's initial public offering and our formation. This information includes the historical results of operations and assets and liabilities directly related to Bottling LLC, and has been prepared from PepsiCo's historical accounting records. Certain estimates, assumptions and allocations were made in determining such financial statement information. Therefore, these Consolidated Financial Statements may not necessarily be indicative of the results of operations, financial position or cash flows that would have existed had we been a separate, independent company from the first day of fiscal year 1999.

On March 8, 1999, PBG issued $1 billion of 7% senior notes due 2029, which are guaranteed by us. We also guarantee that to the extent there is available cash, we will distribute pro rata to all owners sufficient cash such that aggregate cash distributed to PBG will enable PBG to pay its taxes and make interest payments on the $1 billion 7% senior notes due 2029. During 2001 and 2000, we made cash distributions to our owners totaling $223 million and $45 million, respectively. Any amounts in excess of taxes and interest payments were used by PBG to repay loans to us.

Note 2—Summary of Significant Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

New Accounting Standards During 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") 141, "Business Combinations," which requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001, and SFAS 142, "Goodwill and Other Intangible Assets," which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment. Effective the first day of fiscal year 2002, we will no longer amortize goodwill and certain franchise rights, but will evaluate them for impairment annually. We have completed the initial impairment review required by SFAS 142 and have determined that our intangible assets are not impaired. The adoption of SFAS 142 will reduce our fiscal year 2002 amortization expense by approximately $128 million.

In addition, during 2001 the FASB also issued SFAS 143, "Accounting for Asset Retirement Obligations" and SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It requires that we recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS 144 superseded SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." and Accounting Principles Board Opinion 30, "Reporting the Results of Operations – Reporting the Effects of a Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 establishes a single accounting model for the impairment of long-lived assets and broadens the presentation of discontinued operations to include more disposal transactions. SFAS 143 is effective for fiscal year 2003 and SFAS 144 is effective for fiscal year 2002 and we do not anticipate that the adoption of these statements will have a material impact on our Consolidated Financial Statements.

During 2000 and 2001, the Emerging Issues Task Force ("EITF") addressed various issues related to the income statement classification of certain promotional payments. In May 2000, the EITF reached a consensus on Issue 00-14, "Accounting for Certain Sales Incentives," addressing the recognition and income statement classification of various sales incentives. Among its requirements, the consensus will require the costs related to consumer coupons currently classified as marketing costs to be classified as a reduction of revenue. In January 2001, the EITF reached a consensus on Issue 00-22, "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." EITF 00-22 requires that certain volume-based cash rebates to customers currently recognized as marketing costs be classified as a reduction of revenue. In April 2001, the EITF reached a consensus on Issue 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." EITF 00-25 addresses the income statement classification of consideration, other than that directly addressed in EITF 00-14, from a vendor to a reseller or another party that purchases the vendor's products. In November 2001, the EITF codified Issues 00-14, 00-22 and 00-25 as Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." EITF 00-22 was effective for the first quarter of 2001 and was not material to our Consolidated Financial Statements. The remainder of EITF 01-9 is effective for 2002 and we do not anticipate that the adoption will have a material impact on our Consolidated Financial Statements.

Our Consolidated Financial Statements reflect the implementation of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, on the first day of fiscal year 2001. SFAS 133, which was issued in 1998, establishes accounting and reporting standards for hedging activities and derivative instruments, including certain derivative instruments embedded in other contracts, which are collectively referred to as derivatives. It requires that an entity recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measure those instruments at fair value.

Basis of Consolidation The accounts of all of our wholly and majority-owned subsidiaries are included in the accompanying Consolidated Financial Statements. We have eliminated intercompany accounts and transactions in consolidation.

Fiscal Year Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. Fiscal years 2001 and 1999 consisted of 52 weeks while fiscal year 2000 consisted of 53 weeks.

Revenue Recognition We recognize revenue when our products are delivered to customers. Sales terms do not allow a right of return unless product freshness dating has expired. Reserves for returned product were $4 million, $3 million and $2 million at fiscal years ended 2001, 2000 and 1999, respectively.

Advertising and Marketing Costs We are involved in a variety of programs to promote our products. We include advertising and marketing costs in selling, delivery and administrative expenses and expense such costs in the year incurred. Advertising and marketing costs were $389 million, $350 million and $342 million in 2001, 2000 and 1999, respectively.

Bottler Incentives PepsiCo and other brand owners, at their sole discretion, provide us with various forms of marketing support. This marketing support is intended to cover a variety of programs and initiatives, including direct marketplace support, capital equipment funding and shared media, and advertising support. Based on the objective of the programs and initiatives, we record marketing support as an adjustment to net revenues or as a reduction of selling, delivery and administrative expenses. Direct marketplace support is primarily funding by PepsiCo and other brand owners of sales discounts and similar programs and is recorded as an adjustment to net revenues. Capital equipment funding is designed to support the purchase and placement of marketing equipment and is recorded as a reduction of selling, delivery and administrative expenses. Shared media and advertising support is recorded as a reduction to advertising and marketing expense within selling, delivery and administrative expenses. There are no conditions or other requirements that could result in a repayment of marketing support received.

The total bottler incentives we received from PepsiCo and other brand owners were $598 million, $566 million and $563 million for 2001, 2000 and 1999, respectively. Of these amounts, we recorded $293 million, $277 million and $263 million for 2001, 2000 and 1999, respectively, in net revenues, and the remainder as a reduction of selling, delivery and administrative expenses. The amount of our bottler incentives received from PepsiCo was more than 90% of our bottler incentives in each of the three years, with the balance received from the other brand owners.

Shipping and Handling Costs We record shipping and handling costs within selling, delivery and administrative expenses. Such costs totaled $947 million, $925 million and $915 million in 2001, 2000 and 1999, respectively.

Foreign Currency Gains and Losses We translate the balance sheets of our foreign subsidiaries that do not operate in highly inflationary economies at the exchange rates in effect at the balance sheet date, while we translate the statements of operations at the average rates of exchange during the year. The resulting translation adjustments of our foreign subsidiaries are recorded directly to accumulated other comprehensive loss. Foreign currency gains and losses reflect translation gains and losses arising from the re-measurement into U.S. dollars of the net monetary assets of businesses in highly inflationary countries and transaction gains and losses. Russia is considered a highly inflationary economy for accounting purposes.

Income Taxes We are a limited liability company, taxable as a partnership for U.S. tax purposes and, as such, generally will pay no U.S. federal or state income taxes. Our federal and state distributable share of income, deductions and credits will be allocated to our owners based on their percentage of ownership. However, certain domestic and foreign affiliates pay taxes in their respective jurisdictions and record related deferred income tax assets and liabilities. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax purposes. In accordance with SFAS 109, "Accounting for Income Taxes," these deferred taxes are measured by applying currently enacted tax laws. With the exception of certain of our subsidiaries for which we have recorded deferred taxes in our Consolidated Financial Statements, deferred taxes associated with our U.S. operations are recorded directly by our owners.

Cash Equivalents Cash equivalents represent funds we have temporarily invested with original maturities not exceeding three months.

Allowance for Doubtful Accounts We determine our allowance for doubtful accounts based on an evaluation of the aging of our receivable portfolio. Our reserve contemplates our historical loss rate on receivables and the economic environment in which we operate.

Inventories We value our inventories at the lower of cost computed on the first-in, first-out method or net realizable value.

Property, Plant and Equipment We state property, plant and equipment ("PP&E") at cost, except for PP&E that has been impaired, for which we write down the carrying amount to estimated fair-market value, which then becomes the new cost basis.

Intangible Assets Identifiable intangible assets arise principally from the allocation of the purchase price of businesses acquired, and consist primarily of territorial franchise rights. Our franchise rights are typically perpetual in duration, subject to compliance with the underlying franchise agreement. We assign amounts to such identifiable intangibles based on their estimated fair value at the date of acquisition. Goodwill represents the residual purchase price after allocation to all identifiable net assets. Identifiable intangible assets are evaluated at the date of acquisition and amortized on a straight-line basis over their estimated useful lives, which in most cases is from 20-40 years the maximum period permitted by GAAP.

Recoverability of Long-Lived Assets We review all long-lived assets, including intangible assets, when facts and circumstances indicate that the carrying value of the asset may not be recoverable. When necessary, we write down an impaired asset to its estimated fair value based on the best information available. Estimated fair value is generally based on either appraised value or measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows, which are discounted based on our weighted-average cost of capital. Accordingly, actual results could vary significantly from such estimates.

Minority Interest PBG has a direct minority ownership in one of our subsidiaries. PBG's share of combined income or loss and assets and liabilities in the subsidiary is accounted for as minority interest.

Financial Instruments and Risk Management We use derivative instruments to hedge against the risk of adverse movements in the price of certain commodities and fuel used in our operations. Our use of derivative instruments is limited to interest rate swaps, forward contracts, futures and options on futures contracts. Our corporate policy prohibits the use of derivative instruments for trading or speculative purposes, and we have procedures in place to monitor and control their use.

All derivative instruments are recorded at fair value as either assets or liabilities in our Consolidated Balance Sheets. Derivative instruments are designated and accounted for as either a hedge of a recognized asset or liability ("fair value hedge") or a hedge of a forecasted transaction ("cash flow hedge"). For a fair value hedge, both the effective and ineffective portions of the change in fair value of the derivative instrument, along with an adjustment to the carrying amount of the hedged item for fair value changes attributable to the hedged risk, are recognized in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument that are highly effective are deferred in accumulated other comprehensive loss until the underlying hedged item is recognized in earnings. The ineffective portion of fair value changes on qualifying hedges is recognized in earnings immediately and is recorded consistent with the expense classification of the underlying hedged item. If a fair value or cash flow hedge were to cease to qualify for hedge accounting or be terminated, it would continue to be carried on the balance sheet at fair value until settled but hedge accounting would be discontinued prospectively. If a forecasted transaction were no longer probable of occurring, amounts previously deferred in accumulated other comprehensive loss would be recognized immediately in earnings.

On occasion, we may enter into a derivative instrument for which hedge accounting is not required because it is entered into to offset changes in the fair value of an underlying transaction recognized in earnings ("natural hedge"). These instruments are reflected in the Consolidated Balance Sheets at fair value with changes in fair value recognized in earnings.

Stock-Based Employee Compensation We measure stock-based compensation expense in accordance with Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees," and its related interpretations. Accordingly, compensation expense for PBG stock options granted to our employees is measured as the excess of the quoted market price of common stock at the grant date over the amount the employee must pay for the stock. Our policy is to grant PBG stock options at fair value on the date of grant.

Commitments and Contingencies We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Liabilities related to commitments and contingencies are recognized when a loss is probable and reasonably estimable.

Reclassifications Certain reclassifications were made in our Consolidated Financial Statements to 2000 and 1999 amounts to conform with the 2001 presentation.

Note 3—Comparability of Results

Asset Lives

At the beginning of fiscal year 2000, we changed the estimated useful lives of certain categories of assets primarily to reflect the success of our preventive maintenance programs in extending the useful lives of these assets. The changes, which are detailed in the table below, lowered total depreciation cost by approximately $69 million. In 2001 we are utilizing the same asset lives as in 2000.

(in years)

	Estimated Useful Lives	
	2000	1999
Manufacturing equipment	15	10
Heavy fleet	10	8
Fountain dispensing equipment	7	5
Small specialty coolers and specialty marketing equipment	3	5 to 7

Fiscal Year

Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. Fiscal years 2001 and 1999 consisted of 52 weeks while fiscal year 2000 consisted of 53 weeks. The extra week in 2000 contributed approximately $12 million of additional net income to our 2000 operating results.

PBG's Initial Public Offering

For the period prior to PBG's initial public offering and the formation of Bottling LLC, we prepared our Consolidated Financial Statements as a "carve-out" from the financial statements of PepsiCo using the historical results of operations and assets and liabilities of our business. Certain costs reflected in the Consolidated Financial Statements may not necessarily be indicative of the costs that we would have incurred had we operated as an independent, stand-alone entity from the first day of fiscal year 1999. These costs include an allocation of PepsiCo's corporate overhead and interest expense:

- We included overhead related to PepsiCo's corporate administrative functions based on a specific identification of PepsiCo's administrative costs relating to the bottling operations and, to the extent that such identification was not practicable, based upon the percentage of our revenues to PepsiCo's consolidated net revenues. These costs are included in selling, delivery and administrative expenses in our Consolidated Statements of Operations.

- We allocated $2.3 billion of PepsiCo's debt to our business and charged interest expense on this debt using PepsiCo's weighted-average interest rate. Once we issued $2.3 billion of third-party debt in the first quarter of 1999, our actual interest rates were used to determine interest expense for the remainder of the year.

The amounts of the historical allocations described above are as follows:

	1999
Corporate overhead expense	$ 3
Interest expense	$ 16
PepsiCo's weighted-average interest rate	5.8%

Note 4—Unusual Impairment and Other Charges and Credits

Our operating results were affected by the following unusual charges and credits:

	1999
Non-cash compensation charge	$ 45
Vacation policy change	(53)
Asset impairment and restructuring charges	(8)
	$ (16)

- Non-cash Compensation Charge

  In connection with the completion of PBG's initial public offering, PepsiCo vested substantially all non-vested PepsiCo stock options held by our employees. As a result, we incurred a $45 million non-cash compensation charge in the second quarter of 1999, equal to the difference between the market price of the PepsiCo capital stock and the exercise price of these options at the vesting date.

- Vacation Policy Change

  As a result of changes to our employee benefit and compensation plans in 1999, employees now earn vacation time evenly throughout the year based upon service rendered. Previously, employees were fully vested at the beginning of each year. As a result of this change, we reversed an accrual of $53 million into income in 1999.

- Asset Impairment and Restructuring Charges

  In the fourth quarter of 1999, $8 million of the remaining restructuring reserve recorded in 1998, relating to an asset impairment and restructuring in our Russian operations, was reversed into income. The reversal was necessitated as actual costs incurred to renegotiate manufacturing and leasing contracts in Russia and to reduce the number of employees were less than the amounts originally estimated.

Note 5—Inventories

	2001	2000
Raw materials and supplies	$ 117	$ 107
Finished goods	214	174
	$ 331	$ 281

Note 6—Property, Plant and Equipment, net

	2001	2000
Land	$ 145	$ 145
Buildings and improvements	925	903
Manufacturing and distribution equipment	2,308	2,169
Marketing equipment	1,846	1,745
Other	121	106
	5,345	5,068
Accumulated depreciation	(2,802)	(2,710)
	$ 2,543	$ 2,358

We calculate depreciation on a straight-line basis over the estimated lives of the assets as follows:

Buildings and improvements	20-33 years
Production equipment	15 years
Distribution equipment	5-10 years
Marketing equipment	3-7 years

Note 7—Intangible Assets, net

	2001	2000
Franchise rights and other identifiable intangibles	$ 3,636	$ 3,557
Goodwill	1,574	1,591
	5,210	5,148
Accumulated amortization	(1,526)	(1,454)
	$ 3,684	$ 3,694

Note 8—Notes Receivable from PBG

We have loaned PBG $310 million and $268 million during 2001 and 2000, respectively, net of repayments. These loans were made through a series of 5-year notes, with interest rates ranging from 2.4% and 8.0%. The proceeds were used by PBG to pay for interest, taxes, dividends, share repurchases and in 2001, for acquisitions. Accrued interest receivable from PBG on these notes totaled $44 million and $26 million at December 29, 2001 and December 30, 2000, respectively, and is recorded within prepaid expenses and other current assets in our Consolidated Balance Sheets.

Note 9—Accounts Payable and Other Current Liabilities

	2001	2000
Accounts payable	$ 362	$ 344
Trade incentives	205	206
Accrued compensation and benefits	141	147
Accrued interest	47	48
Accounts payable to PepsiCo	17	—
Other current liabilities	205	170
	$ 977	$ 915

Note 10—Short-term Borrowings and Long-term Debt

	2001	2000
Short-term borrowings		
Current maturities of long-term debt	$ 3	$ 1
Other short-term borrowings	74	25
	$ 77	$ 26
Long-term debt		
5 5/8% senior notes due 2009	$1,300	$1,300
5 3/8% senior notes due 2004	1,000	1,000
Other	18	6
	2,318	2,306
Less: Unamortized discount	16	19
Current maturities of long-term debt	3	1
	$2,299	$2,286

Maturities of long-term debt as of December 29, 2001 are 2002: $3 million, 2003: $3 million, 2004: $1,008 million, 2005: $0, 2006: $0 and thereafter, $1,304 million.

The $1.3 billion of 5 5/8% senior notes and the $1.0 billion of 5 3/8% senior notes were issued on February 9, 1999 and are guaranteed by PepsiCo. During the second quarter of 1999 we executed an interest rate swap converting 4% of our fixed-rate debt to floating-rate debt.

We allocated $2.3 billion of PepsiCo's long-term debt in our financial statements prior to issuing the senior notes referred to above. Our interest expense includes the related allocated interest expense of $16 million in 1999, and is based on PepsiCo's weighted-average interest rate of 5.8% in 1999.

We have available short-term bank credit lines of approximately $177 million and $135 million at December 29, 2001 and December 30, 2000, respectively. These lines are used to support general operating needs of our business outside the United States. The weighted-average interest rate for these lines of credit outstanding at December 29, 2001 and December 30, 2000 was 4.3% and 8.9%, respectively.

On March 8, 1999, PBG issued $1 billion of 7% senior notes due 2029, which are guaranteed by us.

Amounts paid to third parties for interest were $121 million, $131 million and $74 million in 2001, 2000 and 1999, respectively. In 1999, allocated interest expense was deemed to have been paid to PepsiCo, in cash, in the period in which the cost was incurred.

Note 11—Leases

We have noncancellable commitments under both capital and long-term operating leases. Capital and operating lease commitments expire at various dates through 2021. Most leases require payment of related executory costs, which include property taxes, maintenance and insurance.

Our future minimum commitments under noncancellable leases are set forth below:

	Commitments	
	Capital	Operating
2002	$—	$ 22
2003	—	20
2004	—	17
2005	—	16
2006	—	14
Later years	3	82
	$ 3	$171

At December 29, 2001, the present value of minimum payments under capital leases was $1 million, after deducting $2 million for imputed interest. Our rental expense was $40 million, $42 million and $55 million for 2001, 2000 and 1999, respectively.

Note 12—Financial Instruments and Risk Management

These Consolidated Financial Statements reflect the implementation of SFAS 133, as amended by SFAS 138, on the first day of fiscal year 2001. In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for hedging activities and derivative instruments, including certain derivative instruments embedded in other contracts, which are collectively referred to as derivatives. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. In June 2000, the FASB issued SFAS 138, amending the accounting and reporting standards of SFAS 133. Prior to the adoption of SFAS 133, there were no deferred gains or losses from our hedging activities recorded in our Consolidated Financial Statements. The adoption of these statements resulted in the recording of a deferred gain in our Consolidated Balance Sheets, which was recorded as an increase to current assets of $4 million and a reduction of accumulated other comprehensive loss of $4 million. Furthermore, the adoption had no impact on our Consolidated Statement of Operations.

As of December 29, 2001, our use of derivative instruments is limited to an interest rate swap, forward contracts, futures and options on futures contracts. Our corporate policy prohibits the use of derivative instruments for trading or speculative purposes, and we have procedures in place to monitor and control their use.

Cash Flow Hedge We are subject to market risk with respect to the cost of commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We use futures contracts and options on futures in the normal course of business to hedge the risk of adverse movements in commodity prices related to anticipated purchases of aluminum and fuel used in our operations. These contracts, which generally range from 1 to 12 months in duration, establish our commodity purchase prices within defined ranges in an attempt to limit our purchase price risk resulting from adverse commodity price movements and are designated as and qualify for cash flow hedge accounting treatment.

In 2001, the amount of deferred losses from our commodity hedging that we recognized into income was $4 million. At December 29, 2001 a $19 million deferred loss remained in accumulated other comprehensive loss in our Consolidated Balance Sheets resulting from our commodity hedges. We anticipate that this loss will be recognized in cost of sales in our Consolidated Statements of Operations over the next 12 months. The ineffective portion of the change in fair value of these contracts was not material to our results of operations in 2001.

Fair Value Hedges We finance a portion of our operations through fixed-rate debt instruments. At December 29, 2001 our debt instruments primarily consisted of $2.3 billion of fixed-rate long-term senior notes, 4% of which we converted to floating rate debt through the use of an interest rate swap with the objective of reducing our overall borrowing costs. This interest rate swap, which expires in 2004, is designated as and qualifies for fair value hedge accounting and is 100% effective in eliminating the interest rate risk inherent in our long-term debt as the notional amount, interest payment, and maturity date of the swap matches the notional amount, interest payment and maturity date of the related debt. Accordingly, any market risk or opportunity associated with this swap is fully offset by the opposite market impact on the related debt. The change in fair value of the interest rate swap was a gain of $7 million in 2001. The fair value change was recorded in interest expense in our Consolidated Statements of Operations and in prepaid expenses and other current assets in our Consolidated Balance Sheets. An offsetting adjustment was recorded in interest expense in our Consolidated Statements of Operations and in long-term debt in our Consolidated Balance Sheets representing the change in fair value in long-term debt.

Equity Derivatives We use equity derivative contracts with financial institutions to hedge a portion of our deferred compensation liability, which is based on PBG's stock price. These prepaid forward contracts for the purchase of PBG common stock are accounted for as natural hedges. The earnings impact from these hedges is classified as selling, delivery and administrative expenses consistent with the expense classification of the underlying hedged item.

Fair Value Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities and short-term debt. The carrying value of these financial assets and liabilities approximates fair value due to the short maturity of our financial assets and liabilities, and since interest rates approximate fair value for short-term debt.

Long-term debt at December 29, 2001 had a carrying value and fair value of $2.3 billion, and at December 30, 2000 had a carrying value and fair value of $2.3 billion and $2.2 billion, respectively.

Note 13—Pension and Postretirement Benefit Plans

Pension Benefits

Our U.S. employees participate in noncontributory defined benefit pension plans, which cover substantially all full-time salaried employees, as well as most hourly employees. Benefits generally are based on years of service and compensation, or stated amounts for each year of service. All of our qualified plans are funded and contributions are made in amounts not less than minimum statutory funding requirements and not more than the maximum amount that can be deducted for U.S. income tax purposes. Our net pension expense for the defined benefit pension plans for our operations outside the U.S. was not significant.

Postretirement Benefits

Our postretirement plans provide medical and life insurance benefits principally to U.S. retirees and their dependents. Employees are eligible for benefits if they meet age and service requirements and qualify for retirement benefits. The plans are not funded and since 1993 have included retiree cost sharing.

	Pension		
Components of net periodic benefit costs:	2001	2000	1999
Service cost	$ 28	$ 27	$ 30
Interest cost	50	49	42
Expected return on plan assets	(60)	(56)	(49)
Amortization of net loss	—	—	4
Amortization of prior service amendments	4	5	5
Net periodic benefit costs	$ 22	$ 25	$ 32

	Postretirement		
Components of net periodic benefit costs:	2001	2000	1999
Service cost	$ 3	$ 3	$ 4
Interest cost	16	14	12
Amortization of net loss	1	1	—
Amortization of prior service amendments	(6)	(6)	(5)
Net periodic benefit costs	$ 14	$ 12	$ 11

We amortize prior service costs on a straight-line basis over the average remaining service period of employees expected to receive benefits.

	Pension		Postretirement	
Changes in the benefit obligation:	2001	2000	2001	2000
Obligation at beginning of year	$ 664	$ 647	$ 212	$ 206
Service cost	28	27	3	3
Interest cost	50	49	16	14
Plan amendments	10	4	—	(10)
Actuarial loss/(gain)	48	(19)	14	11
Benefit payments	(40)	(40)	(17)	(12)
Acquisitions and other	—	(4)	—	—
Obligation at end of year	$ 760	$ 664	$ 228	$ 212

	Pension		Postretirement	
Changes in the fair value of assets:	2001	2000	2001	2000
Fair value at beginning of year	$ 665	$ 597	$ —	$ —
Actual (loss)/gain on plan assets	(117)	96	—	—
Employer contributions	70	16	17	12
Benefit payments	(40)	(40)	(17)	(12)
Acquisitions and other	—	(4)	—	—
Fair value at end of year	$ 578	$ 665	$ —	$ —

Selected information for the plans with accumulated benefit obligations in excess of plan assets:

	Pension		Postretirement	
	2001	2000	2001	2000
Projected benefit obligation	$ 760	$ 31	$228	$212

Accumulated benefit obligation	690	14	228	212
Fair value of plan assets	604	—	—	—

Funded status recognized on the Consolidated Balance Sheets:

	Pension		Postretirement	
	2001	2000	2001	2000
Funded status at end of year	$(182)	$ 1	$(228)	$(212)
Unrecognized prior service cost	36	31	(16)	(21)
Unrecognized loss/(gain)	153	(73)	57	45
Unrecognized transition asset	(1)	(1)	—	—
Fourth quarter employer contributions	26	10	5	7
Net amounts recognized	$ 32	$ (32)	$(182)	$(181)

Net amounts recognized in the Consolidated Balance Sheets:

	Pension		Postretirement	
	2001	2000	2001	2000
Prepaid expenses	$ —	$ 31	$ —	$ —
Other liabilities	(101)	(63)	(182)	(181)
Intangible assets, net	37	—	—	—
Accumulated other comprehensive loss	96	—	—	—
Net amounts recognized	$ 32	$ (32)	$(182)	$(181)

At December 29, 2001, the accumulated benefit obligation of certain PBG pension plans exceeded the fair market value of the plan assets resulting in the recognition of an additional unfunded liability as a minimum balance sheet liability. As a result of this additional liability, an intangible asset of $37 million and an increase to accumulated other comprehensive loss of $96 million were recognized.

The weighted-average assumptions used to compute the above information are set forth below:

	Pension		
	2001	2000	1999
Discount rate for benefit obligation	7.5%	7.8%	7.8%
Expected return on plan assets	10.0%	10.0%	10.0%
Rate of compensation increase	4.3%	4.6%	4.3%

	Postretirement		
	2001	2000	1999
Discount rate for benefit obligation	7.5%	7.8%	7.8%

Components of Pension Assets

The pension plan assets are principally invested in stocks and bonds. None of the assets are invested directly in PBG stock.

Health Care Cost Trend Rates

We have assumed an average increase of 8.0% in 2002 in the cost of postretirement medical benefits for employees who retired before cost sharing was introduced. This average increase is then projected to decline gradually to 4.5% in 2009 and thereafter.

Assumed health care cost trend rates have an impact on the amounts reported for postretirement medical plans. A one-percentage point change in assumed health care costs would have the following effects:

	1% Increase	1% Decrease
Effect on total fiscal year 2001 service and interest cost components	$ -	$ -
Effect on the fiscal year 2001 accumulated postretirement benefit obligation	7	(6)

Other Employee Benefit Plans

We made several changes to our employee benefit plans that took effect in fiscal year 2000. The changes were made to our vacation policy, pension and retiree medical plans and included some benefit enhancements as well as cost containment provisions. These changes did not have a significant impact on our financial results in 2001 or 2000.

In 1999, we implemented a matching company contribution to our 401(k) plan that began in 2000. The match is dependent upon the employee's contribution and years of service. The matching company contribution was approximately $17 million and $15 million in 2001 and 2000, respectively.

In the fourth quarter of 1999 we recognized a $16 million compensation charge related to full-year 1999 performance. This expense was one-time in nature and was for the benefit of our management employees, reflecting our successful operating results as well as providing certain incentive-related features.

Note 14—Employee Stock Option Plans

Under our long-term incentive plan, PBG stock options are issued to middle and senior management employees and vary according to salary and level. The following discussion of PBG stock options has been adjusted to reflect PBG's 2001 two-for-one stock split. Except as noted below, options granted in 2001 and 2000 had exercise prices ranging from $18.88 per share to $22.50 per share, and $9.38 per share to $15.88 per share, respectively, expire in 10 years and become exercisable 25% after the first year, 25% after the second year and the remainder after the third year. Options granted in 1999 had exercise prices ranging from $9.63 per share to $11.50 per share and, with the exception of our chairman's options, are exercisable after three years and expire in 10 years. PBG's chairman's 1999 options are exercisable ratably over the three years following PBG's initial public offering date.

In 2001, two additional option grants were made to certain senior management employees. One grant had an exercise price of $19.50 per share, expires in 10 years and became exercisable on the grant date. The other grant had an exercise price of $22.50 per share, expires in 10 years and becomes exercisable in 5 years.

In conjunction with PBG's initial public offering and our formation, PBG issued a one-time founders' grant of options to all full-time non-management employees in 1999 to purchase 200 shares of PBG stock. These options have an exercise price equal to the initial public offering price of $11.50 per share, are exercisable after three years and expire in 10 years.

In connection with the completion of PBG's initial public offering and our formation, PepsiCo vested substantially all non-vested PepsiCo stock options held by our employees. As a result, we incurred a $45 million non-cash compensation charge in the second quarter of 1999, equal to the difference between the market price of the PepsiCo capital stock and the exercise price of these options at the vesting date.

The following table summarizes option activity during 2001:

(Options in millions)	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	33.2	$10.75
Granted	10.2	20.47
Exercised	(1.8)	10.84
Forfeited	(1.9)	12.01
Outstanding at end of year	39.7	$13.20
Exercisable at end of year	6.6	$13.38
Weighted-average fair value of options granted during the year		$ 8.55

The following table summarizes option activity during 2000:

(Options in millions)	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	22.4	$11.49
Granted	13.2	9.57
Exercised	(0.2)	10.53
Forfeited	(2.2)	11.20
Outstanding at end of year	33.2	$10.75
Exercisable at end of year	1.8	$11.11
Weighted-average fair value of options granted during the year		$ 4.68

The following table summarizes option activity during 1999:

(Options in millions)	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	—	$ —
Granted	24.2	11.49
Exercised	—	—
Forfeited	(1.8)	11.50
Outstanding at end of year	22.4	$11.49
Exercisable at end of year	=	$ =
Weighted-average fair value of options granted during the year		$ 5.15

Stock options outstanding and exercisable at December 29, 2001:

(Options in millions) Range of Exercise Price	Options Outstanding Options	Weighted-Average Remaining Contractual Life In Years	Weighted-Average Exercise Price	Options Exercisable Options	Weighted-Average Exercise Price
$9.38-$11.49	10.4	7.99	$ 9.38	2.2	$ 9.40
$11.50-$15.88	19.5	7.02	$11.55	2.3	$11.57
$15.89-$22.50	9.8	9.00	$20.47	2.1	$19.59
	39.7	7.77	$13.20	6.6	$13.38

We adopted the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation," but continue to measure stock-based compensation cost in accordance with the Accounting Principles Board Opinion 25 and its related interpretations. If we had measured compensation cost for the stock options granted to our employees under the fair value based method prescribed by SFAS 123, net income would have been changed to the pro forma amounts set forth below:

	2001	2000	1999
Net Income			
Reported	$ 587	$ 471	$ 273
Pro forma	523	425	244

The fair value of PBG stock options used to compute pro forma net income disclosures was estimated on the date of grant using the Black-Scholes option-pricing model based on the following weighted-average assumptions:

	2001	2000	1999
Risk-free interest rate	4.6%	6.7%	5.8%
Expected life	6 years	7 years	7 years
Expected volatility	35%	35%	30%
Expected dividend yield	0.20%	0.43%	0.35%

Note 15—Income Taxes

We are a limited liability company, taxable as a partnership for U.S. tax purposes and, as such, generally pay no U.S. federal or state income taxes. Our federal and state distributable share of income, deductions and credits are allocated to our owners based on their percentage of ownership. However, certain domestic and foreign affiliates pay income taxes in their respective jurisdictions. We had an income tax benefit of $1 million in 2001, and income tax expense of $22 million and $4 million in 2000 and 1999, respectively. These amounts were comprised of current income tax expense of $8 million, $27 million and $4 million and deferred income tax benefit of $9 million, $5 million and $0 in 2001, 2000 and 1999, respectively.

Our 2001 deferred income tax benefit includes a nonrecurring benefit of $25 million due to enacted tax rate changes in Canada during the year.

The details of our 2001 and 2000 deferred tax liabilities (assets) are set forth below:

	2001	2000
Intangible assets and property, plant and equipment	$175	$185
Other	36	7
Gross deferred tax liabilities	211	192
Net operating loss carryforwards	(121)	(139)
Various liabilities and other	(49)	(27)
Gross deferred tax assets	(170)	(166)
Deferred tax asset valuation allowance	122	148
Net deferred tax assets	(48)	(18)
Net deferred tax liability	$163	$174
Included in:		
Prepaid expenses and other current assets	$ (5)	$ (13)
Deferred income taxes	168	187
	$163	$174

We have net operating loss carryforwards totaling $370 million at December 29, 2001, which are available to reduce future taxes in the U.S., Spain, Greece and Russia. Of these carryforwards, $2 million expire in 2002 and $368 million expire at various times between 2003 and 2021. We have established a full valuation allowance for the net operating loss carryforwards attributable to Spain, Greece and Russia based upon our projection that it is more likely than not that these losses will not be realized. In addition, at December 29, 2001 we have a tax credit carryforward in the U.S. of $7 million with an indefinite carryforward period.

Our valuation allowances, which reduce deferred tax assets to an amount that will more likely than not be realized, have decreased by $26 million and increased by $1 million in 2001 and 2000, respectively.

Deferred taxes are not recognized for temporary differences related to investments in foreign subsidiaries that are essentially permanent in duration. Determination of the amount of unrecognized deferred taxes related to these investments is not practicable.

Income taxes receivable were $10 million and $7 million at December 29, 2001 and December 30, 2000, respectively. Such amounts are recorded within prepaid expenses and other current assets in our Consolidated Balance Sheets. Amounts paid to taxing authorities for income taxes were $11 million, $34 million and $3 million in 2001, 2000 and 1999 respectively.

Note 16—Geographic Data

We operate in one industry, carbonated soft drinks and other ready-to-drink beverages. We conduct business in 41 states and the District of Columbia in the United States. Outside the U.S., we conduct business in eight Canadian provinces, Spain, Greece and Russia.

	Net Revenues		
	2001	2000	1999
U.S.	$7,197	$6,830	$6,352
Other countries	1,246	1,152	1,153
	$8,443	$7,982	$7,505

	Long-Lived Assets		
	2001	2000	1999
U.S.	$6,232	$5,719	$5,398
Other countries	914	960	987
	$7,146	$6,679	$6,385

Note 17—Relationship with PepsiCo

At the time of PBG's initial public offering we entered into a number of agreements with PepsiCo. Although we are not a direct party to these contracts, as the principal operating subsidiary of PBG, we derive direct benefit from them. Accordingly, set forth below are the most significant agreements that govern our relationship with PepsiCo:

(1) the master bottling agreement for cola beverages bearing the "Pepsi-Cola" and "Pepsi" trademark in the United States; bottling and distribution agreements for non-cola products in the United States, including Mountain Dew; and a master fountain syrup agreement in the United States;

(2) agreements similar to the master bottling agreement and the non-cola agreements for each specific country, including Canada, Spain, Greece and Russia, as well as a fountain syrup agreement similar to the master syrup agreement for Canada;

(3) a shared services agreement whereby PepsiCo provides us or we provide PepsiCo with certain administrative support, including procurement of raw materials, transaction processing, such as accounts payable and credit and collection, certain tax and treasury services, and information technology maintenance and systems development. The amounts paid or received under this contract are equal to the actual costs incurred by the company providing the service. From 1998 through 2001, a PepsiCo affiliate provided casualty insurance to us; and

(4) transition agreements that provide certain indemnities to the parties, and provide for the allocation of tax and other assets, liabilities, and obligations arising from periods prior to the initial public offering. Under our tax separation agreement, PepsiCo maintains full control and absolute discretion for any combined or consolidated tax filings for tax periods ending on or before the initial public offering. PepsiCo has contractually agreed to act in good faith with respect to all tax audit matters affecting us. In addition, PepsiCo has agreed to use their best efforts to settle all joint interests in any common audit issue on a basis consistent with prior practice.

We purchase concentrate from PepsiCo that is used in the production of carbonated soft drinks and other ready-to-drink beverages. The price of concentrate is determined annually by PepsiCo at

their discretion. We also produce or distribute other products and purchase finished goods and concentrate through various arrangements with PepsiCo or PepsiCo joint ventures. We reflect such purchases in cost of sales.

We share a business objective with PepsiCo of increasing the availability and consumption of Pepsi-Cola beverages. Accordingly, PepsiCo, at its sole discretion, provides us with various forms of marketing support to promote its beverages. This support covers a variety of initiatives, including marketplace support, marketing programs, capital equipment investment, and shared media expense. Based on the objective of the programs and initiatives, we record marketing support as an adjustment to net revenues or as a reduction of selling, delivery and administrative expense.

We manufacture and distribute fountain products and provide fountain equipment service to PepsiCo customers in some territories in accordance with the Pepsi beverage agreements. Amounts received from PepsiCo for these transactions are offset by the cost to provide these services and are reflected in selling, delivery and administrative expenses. We pay a royalty fee to PepsiCo for the Aquafina trademark.

The Consolidated Statements of Operations include the following income (expense) amounts as a result of transactions with PepsiCo and its affiliates:

	2001	2000	1999
Net revenues	$ 262	$ 244	$ 236
Cost of sales	(1,927)	(1,626)	(1,488)
Selling, delivery and administrative expenses	259	266	285

We are not required to pay any minimum fees to PepsiCo, nor are we obligated to PepsiCo under any minimum purchase requirements. There are no conditions or requirements that could result in the repayment of any marketing support payments received by us from PepsiCo.

We distributed $16 million and $3 million in cash in 2001 and 2000, respectively to PepsiCo in accordance with our ownership agreement. Net amounts payable to PepsiCo and its affiliates were $17 million at December 29, 2001 and net amounts receivable from PepsiCo and its affiliates were $8 million at December 30, 2000. Such amounts are recorded within accounts payable and other current liabilities and accounts receivable in our Consolidated Balance Sheets, respectively.

Note 18—Contingencies

We are involved in a lawsuit with current and former employees concerning wage and hour issues in New Jersey. We are unable to predict the amount of any costs or implications of this case at this time as legal proceedings are ongoing.

We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. We believe that the ultimate liability arising from such claims or contingencies, if any, in excess of amounts already recognized is not likely to have a material adverse effect on our results of operations, financial condition or liquidity.

Note 19—Acquisitions

In May 2001, PBG acquired the Pepsi-Cola bottling operations along with the exclusive right to manufacture, sell and distribute Pepsi-Cola beverages from Pepsi-Cola Bottling of Northern California. In connection with the acquisition, PBG contributed certain net assets acquired totaling $74 million to Bottling LLC increasing its ownership of us from 92.9% to 93.0%. In August 2001, we acquired the operations and exclusive right to manufacture, sell and distribute Pepsi-Cola beverages from Pepsi-Cola Elmira Bottling Co. Inc. for $46 million in cash and assumed debt. These

acquisitions were made to enable us to provide better service to our large retail customers as well as reduce costs through economies of scale. In December 2001, PBG signed a letter of intent to purchase the Pepsi-Cola Bottling Company of Macon, Inc. The transaction is expected to close in the first quarter of 2002, and, as PBG's principal operating subsidiary, we expect that the majority of the net assets acquired will be contributed to us. During 2000, we acquired two territories in Canada for an aggregate purchase price of $26 million in cash.

These acquisitions were accounted for by the purchase method of accounting. The aggregate purchase price exceeded the fair value of net tangible assets acquired, in both 2001 and 2000, including the resulting tax effect, by approximately $108 million and $14 million, respectively. The excess was recorded in intangible assets. In addition, liabilities incurred and/or assumed in connection with these acquisitions totaled $20 million and $9 million in 2001 and 2000, respectively.

Note 20—Subsequent Events (unaudited)

During the first quarter of 2002, we acquired the operations and exclusive right to manufacture, sell and distribute Pepsi-Cola's international beverages in Turkey for a purchase price of approximately $100 million in cash and assumed debt.

Note 21—Selected Quarterly Financial Data (unaudited)

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Net revenues	$1,647	$2,060	$2,274	$2,462	$8,443
Gross profit	765	952	1,052	1,094	3,863
Operating income	90	218	285	85	678
Net income (1)	67	201	260	59	587

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Net revenues	$1,545	$1,913	$2,125	$2,399	$7,982
Gross profit	700	880	962	1,035	3,577
Operating income	75	191	257	68	591
Net income	51	158	227	35	471

(1) During 2001, the Canadian Government passed laws reducing federal and certain provincial corporate income tax rates. These rate changes resulted in one-time gains of $16 million and $9 million in the second and third quarters of 2001, respectively.

The first, second and third quarters of each year consisted of 12 weeks, while the fourth quarter consisted of 16 weeks in 2001 and 17 weeks in 2000. The extra week in fiscal year 2000 contributed $12 million of additional net income to our fourth quarter and fiscal year 2000 results.

345 Park Avenue
New York, NY 10154

Report of Independent Auditors

The Owners of
Bottling Group, LLC:

We have audited the accompanying Consolidated Balance Sheets of Bottling Group, LLC as of December 29, 2001 and December 30, 2000, and the related Consolidated Statements of Operations, Cash Flows and Changes in Owners' Equity for each of the fiscal years in the three-year period ended December 29, 2001. These Consolidated Financial Statements are the responsibility of management of Bottling Group, LLC. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of Bottling Group, LLC as of December 29, 2001 and December 30, 2000, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended December 29, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

New York, New York
January 24, 2002

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Managing Directors and Executive Officers of Bottling LLC

The name, age and background of each of the Bottling LLC's Managing Directors is set forth below:

John T. Cahill, 44, is a Managing Director of Bottling LLC. Mr. Cahill is currently the Chief Executive Officer of PBG. Previously, Mr. Cahill served as PBG's President and Chief Operating Officer from August 2000 to September 2001. Mr. Cahill has been a member of PBG's Board of Directors since January 1999 and served as PBG's Executive Vice President and Chief Financial Officer prior to becoming President and Chief Operating Officer in August 2000. He was Executive Vice President and Chief Financial Officer of the Pepsi-Cola Company from April 1998 until November 1998. Prior to that, Mr. Cahill was Senior Vice President and Treasurer of PepsiCo, having been appointed to that position in April 1997. In 1996, he became Senior Vice President and Chief Financial Officer of Pepsi-Cola North America. Mr. Cahill joined PepsiCo in 1989 where he held several other senior financial positions through 1996.

Pamela C. McGuire, 54, is a Managing Director of Bottling LLC. She is also the Senior Vice President, General Counsel and Secretary of PBG. She was the Vice President and Division Counsel of the Pepsi-Cola Company from 1989 to March 1998, at which time she was named its Vice President and Associate General Counsel. Ms. McGuire joined PepsiCo in 1977 and held several other positions in its legal department through 1989.

Matthew M. McKenna, 51, is a Managing Director of Bottling LLC. He is also the Senior Vice President of Finance of PepsiCo. Previously he was Senior Vice President and Treasurer and before that, Senior Vice President, Taxes. Prior to joining PepsiCo in 1993 as Vice President, Taxes, he was a partner with the law firm of Winthrop, Stimson, Putnam & Roberts in New York.

Pursuant to Item 401(b) of Regulation S-K, the executive officers of Bottling LLC are reported in Part I of this Report. Executive officers are elected by the Managing Directors of Bottling LLC, and their terms of office continue until their successors are appointed and qualified or until their earlier resignation or removal. There are no family relationships among our executive officers. Managing Directors are elected by a majority of Members of Bottling LLC and their terms of office continue until their successors are appointed and qualified or until their earlier resignation or removal, death or disability.

Item 11. Executive Compensation

Summary of Cash and Certain Other Compensation. The following table provides information on compensation earned and stock options awarded for the years indicated by PBG to Bottling LLC's Principal Executive Officer and the two other executive officers of Bottling LLC as of the end of the 2001 fiscal year in accordance with the rules of the Securities and Exchange Commission. These three individuals are referred to as the named executive officers.

Summary Compensation Table

		Annual Compensation			Long Term Compensation	
Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual Compensation $	Securities Under-Lying Options [1] [2] (#)	All Other Compensation ($)
John T. Cahill	2001	$ 636,712	$ 870,000	$ 12,566 [3]	739,300 [4]	$ 6,821 [5] [6]
Principal	2000	539,904	811,320	14,139	240,000	6,800
Executive Officer	1999	468,077	531,250	7,608	264,130	1,000,000
Alfred H. Drewes	2001	175,000[7]	268,090 [7]	7,522 [3]	135,758	0
Principal Financial	2000					
Officer	1999	—	—	—	—	—
		—	—	—	—	—
Andrea L. Forster	2001	180,154	106,920	4,695 [3]	43,622	6,800 [6]
Principal Accounting	2000	163,857	126,990	4,695	33,707	6,800
Officer	1999	135,565	74,180	4,695	17,557	100,000

(1) Amounts include (i) a standard annual stock option award and (ii) a one-time variable award granted prior to PBG's IPO ("Variable Award") that was payable in cash or stock options at the election of the executive. These Variable Awards are based on PBG performance targets as pre-established by the Compensation Subcommittee. The stock options granted pursuant to the Variable Awards became exercisable on February 1, 2001.

(2) Stock options granted in 2001 are adjusted to reflect the 2-for-1 split of PBG Common Stock effective November 27, 2001; stock options granted in 2000 and 1999 are presented on a pre-split basis.

(3) This amount represents payment of executive's tax liability with respect to certain Company provided perquisites.

(4) This amount includes a special stock option award granted in September 2001 in recognition of new roles and responsibilities as a result of senior management succession. These stock options become exercisable on September 30, 2006.

(5) In 2001, Mr. Cahill waived his right to receive certain future compensation payments under PBG's executive income deferral plan. In connection with this waiver, PBG entered into an arrangement by which such waived amount was used for the purpose of purchasing insurance for his benefit and the benefit of his designated beneficiaries. The cost of the insurance policy will not exceed the cost PBG would have incurred with respect to the compensation payment waived by Mr. Cahill. The premium amount of $21.00 included for Mr. Cahill is based on coverage

not exceed the cost PBG would have incurred with respect to the compensation payment waived by Mr. Cahill. The premium amount of $21.00 included for Mr. Cahill is based on coverage being effective for 4 days in 2001.

(6) This amount includes a standard Company matching contribution of $6,800 in PBG Common Stock to the executive's 401(k) account.

(7) Mr. Drewes' salary reflects his employment with PBG effective June 25, 2001. Mr. Drewes' bonus reflects a full year payout based on PBG and PepsiCo Beverages International performance results.

Item 12. Security Ownership of Certain Beneficial Owners and Management

PBG holds 93% and PepsiCo indirectly holds 7.0% of the ownership in Bottling LLC.

Item 13. Certain Relationships and Related Transactions

Although Bottling LLC is not a direct party to the following transactions, as the principal operating subsidiary of PBG, it derives certain benefits from them. Accordingly, set forth below is information relating to certain transactions between PBG and PepsiCo.

Stock Ownership and Director Relationships with PepsiCo. PBG was initially incorporated in January 1999 as a wholly owned subsidiary of PepsiCo to effect the separation of most of PepsiCo's company-owned bottling businesses. PBG became a publicly traded company on March 31, 1999. As of February 21, 2002, PepsiCo's ownership represented 37.9% of the outstanding Common Stock and 100% of the outstanding Class B Common Stock together representing 42.9% of the voting power of all classes of PBG's voting stock. PepsiCo also owns 7.0% of the equity of Bottling Group, LLC, PBG's principal operating subsidiary.

Agreements and Transactions with PepsiCo and Affiliates. PBG and PepsiCo (and certain of its affiliates) have entered into transactions and agreements with one another, incident to their respective businesses, and PBG and PepsiCo are expected to enter into material transactions and agreements from time to time in the future. As used in this section, "PBG" includes the Company and its subsidiaries.

Material agreements and transactions between PBG and PepsiCo (and certain of its affiliates) during 2001 are described below.

Beverage Agreements and Purchases of Concentrates and Finished Products. PBG purchases concentrates from PepsiCo and manufactures, packages, distributes and sells carbonated and non-carbonated beverages under license agreements with PepsiCo. These agreements give PBG the right to manufacture, sell and distribute beverage products of PepsiCo in both bottles and cans and fountain syrup in specified territories. The agreements also provide PepsiCo with the ability to set prices of such concentrates, as well as the terms of payment and other terms and conditions under which PBG purchases such concentrates. In addition, PBG bottles water under the Aquafina trademark pursuant to an agreement with PepsiCo, which provides for the payment of a royalty fee to PepsiCo. In certain instances, PBG purchases finished beverage products from PepsiCo.

During 2001, total payments by PBG to PepsiCo for concentrates, royalties and finished beverage products were approximately $1.7 billion.

PBG Manufacturing Services. PBG provides manufacturing services to PepsiCo in connection with the production of certain finished beverage products. In 2001, amounts paid or payable by PepsiCo to PBG for these services were approximately $13.8 million.

Purchase of Distribution Rights. During 2001, PBG paid PepsiCo $9.1 million for distribution rights relating to the SoBe brand in certain PBG-owned territories in the United States.

Transactions with Joint Ventures in which PepsiCo holds an equity interest. PBG purchases tea concentrate and finished beverage products from the Pepsi/Lipton Tea Partnership, a joint venture of Pepsi-Cola North America, a division of PepsiCo, and Lipton (the "Partnership"). During 2001, total amounts paid or payable to PepsiCo for the benefit of the Partnership were approximately $116.7 million. In addition, PBG provides certain manufacturing services in connection with the hot-filled tea products of the Partnership to PepsiCo for the benefit of the Partnership. In 2001, amounts paid or payable by PepsiCo to PBG for these services were approximately $18.4 million.

PBG purchases finished beverage products from the North American Coffee Partnership, a joint venture of Pepsi-Cola North America and Starbucks. During 2001, amounts paid or payable to the North American Coffee Partnership by PBG were approximately $108.3 million.

In addition to the amounts described above, PBG received approximately $4.2 million from an international joint venture, in which PepsiCo holds an equity interest in 2001.

Purchase of Snack Food Products from Frito-Lay, Inc. PBG purchases snack food products from Frito-Lay, Inc., a subsidiary of PepsiCo, for sale and distribution through all of Russia except for Moscow. In 2001, amounts paid or payable by PBG to Frito-Lay, Inc. were approximately $27.1 million.

Shared Services. PepsiCo provides various services to PBG pursuant to a shared services agreement, including procurement of raw materials, processing of accounts payable and credit and collection, certain tax and treasury services and information technology maintenance and systems development. During 2001, amounts paid or payable to PepsiCo for shared services totaled approximately $178.9 million.

Pursuant to the shared services agreements, PBG provides certain employee benefit and international tax and accounting services to PepsiCo. During 2001, payments to PBG from PepsiCo for these services totaled approximately $598,000.

Rental Payments. Amounts paid or payable by PepsiCo to PBG for rental of office space at certain PBG facilities were approximately $11.6 million in 2001.

Insurance Services. Hillbrook Insurance Company, Inc., a subsidiary of PepsiCo, provides insurance and risk management services to PBG pursuant to a contractual arrangement. Costs associated with such services in 2001 totaled approximately $57.8 million.

National Fountain Services. PBG provides certain manufacturing, delivery and equipment maintenance services to PepsiCo's national fountain customers. In 2001, net amounts paid or payable by PepsiCo to PBG for these services were approximately $184.6 million.

Marketing and Other Support Arrangements. PepsiCo provides PBG with various forms of marketing support. The level of this support is negotiated annually and can be increased or decreased at the discretion of PepsiCo. This marketing support is intended to cover a variety of programs and initiatives, including direct marketplace support (including point-of-sale materials), capital equipment funding and shared media and advertising support. For 2001, total direct marketing support funding paid or payable to PBG by PepsiCo approximated $553.8 million.

Transactions with Bottlers in which PepsiCo holds an Equity Interest. PBG and PepsiAmericas, Inc., a bottler in which PepsiCo owns an equity interest, and PBG and Pepsi Bottling Ventures LLC, a bottler in which PepsiCo owns an equity interest, bought from and sold to each other finished beverage products. These transactions occurred in instances where the proximity of one party's production facilities to the other party's markets or lack of manufacturing capability, as well as other economic considerations, made it more efficient or desirable for one bottler to buy finished product from another. In 2001, PBG's sales to those bottlers totaled approximately $774,000 and purchases were approximately $40,000.

PBG provides certain administrative support services to PepsiAmericas, Inc. and Pepsi Bottling Ventures LLC. In 2001, amounts paid or payable by PepsiAmericas, Inc. and Pepsi Bottling Ventures LLC to PBG for these services were approximately $650,000.

In connection with PBG's acquisition of Pepsi-Cola Bottling of Northern California ("Northern California") in 2001, PBG paid $10.3 million to PepsiCo for its equity interest in Northern California.

On March 13, 2002, PBG acquired the operations and exclusive right to manufacture, sell and distribute Pepsi-Cola's international beverages in Turkey. As part of this acquisition, PBG paid PepsiCo $7.3 million, subject to certain purchase price adjustments, for its equity interest in the acquired entity and received $16.4 million from PepsiCo for the sale of the acquired entity's local brands to PepsiCo.

Bottling Group, LLC Distribution. PepsiCo has a 7.0% ownership interest in Bottling Group, LLC, our principal operating subsidiary. In accordance with the Bottling Group, LLC's Limited Liability Company Agreement, PepsiCo received a $15.8 million distribution from Bottling Group, LLC in 2001.

Relationships and Transactions with Management and Others. Linda G. Alvarado, a member of PBG's Board of Directors, together with her husband and children, own and operate Taco Bell and Pizza Hut restaurant companies that purchase beverage products from PBG. In 2001, the total amount of these purchases was approximately $382,521.

PART IV

Item 14. Exhibits, Financial Statement Schedule and Reports on Form 8-K

(a) 1. Financial Statements. The following consolidated financial statements of Bottling LLC and its subsidiaries, are incorporated by reference into Part II, Item 8 of this report:

Consolidated Statements of Operations – Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999.

Consolidated Statements of Cash Flows – Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999.

Consolidated Balance Sheets – December 29, 2001 and December 30, 2000.

Consolidated Statements of Changes in Shareholders' Equity – Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999.

Notes to Consolidated Financial Statements.

Report of Independent Auditors.

2. Financial Statement Schedule. The following financial statement schedule of Bottling LLC and its subsidiaries is included in this report on the page indicated:

3. Exhibits

See Index to Exhibits on pages E-1 - E-3.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, The Pepsi Bottling Group, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 28, 2002

Bottling Group, LLC

By: /s/ John T. Cahill
John T. Cahill
Principal Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Bottling Group, LLC and in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE
/s/ John T. Cahill John T. Cahill	Principal Executive Officer and Managing Director	March 28, 2002
/s/ Alfred H. Drewes Alfred H. Drewes	Principal Financial Officer	March 28, 2002
/s/ Andrea L. Forster /s/ Andrea L. Forster	Principal Accounting Officer	March 28, 2002
/s/ Pamela C. McGuire Pamela C. McGuire	Managing Director	March 28, 2002
/s/ Matthew M. McKenna Matthew M. McKenna	Managing Director	March 28, 2002

INDEX TO FINANCIAL STATEMENT SCHEDULE

345 Park Avenue
New York, NY 10154

INDEPENDENT AUDITORS' REPORT

Owners of
Bottling Group, LLC:

Under date of January 24, 2002, we reported on the Consolidated Balance Sheets of Bottling Group, LLC as of December 29, 2001 and December 30, 2000, and the related Consolidated Statement of Operations, Cash Flows and Changes in Owners' Equity for each of the fiscal years in the three-year period ended December 29, 2001, which are included in this Form 10-K. In connection with our audits of the aforementioned Consolidated Financial Statements, we also audited the related consolidated financial statement schedule included in this Form 10-K. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits.

In our opinion, such consolidated financial statement schedule, when considered in relation to the basic Consolidated Financial Statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

New York, New York
January 24, 2002

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
BOTTLING GROUP, LLC
IN MILLIONS

DESCRIPTION	Balance At Beginning Of Period	ADDITIONS Charged To Cost And Expenses	ADDITIONS Charged To Other Accounts (a)	Deductions (b)	Balance At End Of Period
FISCAL YEAR ENDED					
December 29, 2001					
Allowance for losses on trade accounts receivable.....	$42	$ 9	$ —	$ 9	$42
December 30, 2000					
Allowance for losses on trade accounts receivable	$48	$ 2	$ —	$ 8	$42
December 25, 1999					
Allowance for losses on trade accounts receivable.....	$46	$ 6	$ 3	$7	$48

(a) Represents recoveries of amounts previously written off.
(b) Charge off of uncollectable accounts.

INDEX TO EXHIBITS
ITEM 14(a)(3)

EXHIBIT	
3.1	Articles of Formation of Bottling LLC which is incorporated herein by reference from Exhibit 3.4 to Bottling LLC's Registration Statement on Form S-4 (Registration No. 333-80361)
3.2	Amended and Restated Limited Liability Company Agreement of Bottling LLC which is incorporated herein by reference from Exhibit 3.5 to Bottling LLC's Registration Statement on Form S-4 (Registration No. 333-80361)
4.1	Indenture dated as of February 8, 1999 among Pepsi Bottling Holdings, Inc., PepsiCo, Inc. and The Chase Manhattan Bank, as trustee, relating to $1,000,000,000 5 3/8% Senior Notes due 2004 and $1,300,000,000 5 5/8% Senior Notes due 2009 incorporated herein by reference to Exhibit 10.9 to PBG's Registration Statement on Form S-1/A (Registration No. 333-70291).
4.2	First Supplemental Indenture dated as of February 8, 1999 among Pepsi Bottling Holdings, Inc., Bottling Group, LLC, PepsiCo, Inc. and The Chase Manhattan Bank, as trustee, supplementing the Indenture dated as of February 8, 1999 among Pepsi Bottling Holdings, Inc., PepsiCo, Inc. and The Chase Manhattan Bank, as trustee is incorporated herein by reference to Exhibit 10.10 to PBG's Registration Statement on Form S-1/A (Registration No. 333-70291).
4.3	Indenture, dated as of March 8, 1999, by and among The Pepsi Bottling Group, Inc., as obligor, Bottling Group, LLC, as guarantor, and The Chase Manhattan Bank, as trustee, relating to $1,000,000,000 7% Series B Senior Notes due 2029 which is incorporated herein by reference to Exhibit 10.14 to PBG's Registration Statement on Form S-1/A (Registration No. 333-70291).
4.4	U.S. $250,000,000 364 Day Credit Agreement, dated as of April 22, 1999 among PBG, Bottling LLC, The Chase Manhattan Bank, Bank of America National Trust and Savings Association, , Citibank, N.A., Credit Suisse First Boston, UBS AG, Lehman Commercial Paper Inc., Royal Bank of Canada, Banco Bilbao Vizcaya, Deutsche Bank AG New York Branch and/or Cayman Islands Branch, Fleet National Bank, Hong Kong & Shanghai Banking Corp., The Bank of New York, The Northern Trust Company, The Chase Manhattan Bank, as Agent, Chase Securities Inc. as Arranger and Nationsbanc Montgomery Securities LLC and Solomon Smith Barney Inc. as Co-Syndication Agents which is incorporated herein by reference from Exhibit 4.5 to PBG's Annual Report on Form 10-K for the fiscal year ended December 25, 1999.

4.5	U.S. $250,000,000 5 Year Credit Agreement, dated as of April 22, 1999 among PBG, Bottling LLC, The Chase Manhattan Bank, Bank of America National Trust and Savings Association, , Citibank, N.A., Credit Suisse First Boston, UBS AG, Lehman Commercial Paper Inc., Royal Bank of Canada, Banco Bilbao Vizcaya, Deutsche Bank AG New York Branch and/or Cayman Islands Branch, Fleet National Bank, Hong Kong & Shanghai Banking Corp., The Bank of New York, The Northern Trust Company, The Chase Manhattan Bank, as Agent, Chase Securities Inc. as Arranger and Nationsbanc Montgomery Securities LLC and Solomon Smith Barney Inc. as Co-Syndication Agents which is incorporated herein by reference from Exhibit 4.6 to PBG's Annual Report on Form 10-K for the fiscal year ended December 25, 1999.
4.6	U.S. $250,000,000 364 Day Credit Agreement, dated as of May 3, 2000 among PBG, Bottling Group, LLC, The Chase Manhattan Bank, Bank of America, N. A., Citibank, N.A., Credit Suisse First Boston, UBS AG, Lehman Commercial Paper Inc., The Northern Trust Company, Deutsche Bank AG New York Branch and/or Cayman Islands Branch, Royal Bank of Canada, Banco Bilbao Vizcaya, Fleet National Bank, The Bank of New York, The Chase Manhattan Bank, as Agent, Solomon Smith Barney Inc and Banc of America Securities LLC as Co-Lead Arrangers and Book Managers and Citibank, N.A. and Bank of America, N.A. as Co-Syndication Agents which is incorporated herein by reference from Exhibit 4.6 to PBG's Annual Report on Form 10-K for the fiscal year ended December 25, 1999.
4.7	U.S. $250,000,000 Amended and Restated 364 Day Credit Agreement, dated as of May 2, 2001 among PBG, Bottling Group, LLC, The Chase Manhattan Bank, Bank of America, N. A., Citibank, N.A., Credit Suisse First Boston, Lehman Commercial Paper Inc., The Northern Trust Company, Deutsche Bank AG New York Branch and/or Cayman Islands Branch, Royal Bank of Canada, Banco Bilbao Vizcaya, Fleet National Bank, The Bank of New York, State Street Bank and Trust Company, The Chase Manhattan Bank, as Agent, Salomon Smith Barney Inc and JP Morgan as Co-Lead Arrangers and Book Managers and Citibank, N.A. and Bank of America, N.A., as Co-Syndication Agents.
21	Subsidiaries of Bottling Group LLC.

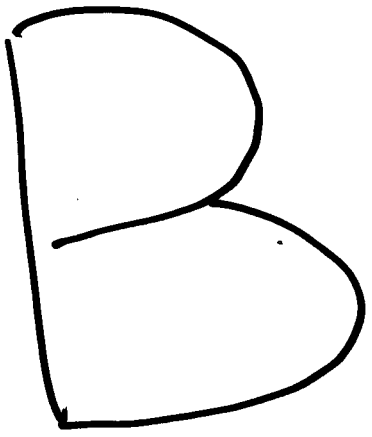


Exhibit A in response to question 1a

No. 333-80361-01

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT
Pursuant to Section 13 of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 29, 2001

Bottling Group, LLC
One Pepsi Way
Somers, New York 10589
(914) 767-6000

Incorporated in Delaware	**13-4042452**
(Jurisdiction of Incorporation)	***(I.R.S. Employer Identification No.)***

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934: None

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

PART I

Item 1. Business

Introduction

Bottling Group, LLC ("Bottling LLC") is the principal operating subsidiary of The Pepsi Bottling Group, Inc. ("PBG") and consists of substantially all of the operations and assets of PBG. Bottling LLC, which is fully consolidated by PBG, consists of bottling operations located in the United States, Canada, Spain, Greece and Russia. Prior to its formation, Bottling LLC was an operating unit of PepsiCo, Inc. ("PepsiCo"). When used in this Report, "Bottling LLC," "we," "us" and "our" each refers to Bottling Group, LLC.

PBG was incorporated in Delaware in January, 1999 as a wholly-owned subsidiary of PepsiCo to effect the separation of most of PepsiCo's company-owned bottling businesses. PBG became a publicly traded company on March 31, 1999. As of February 21, 2002, PepsiCo's ownership represented 37.9% of the outstanding common stock and 100% of the outstanding Class B common stock, together representing 42.9% of the voting power of all classes of PBG's voting stock.

PepsiCo and PBG contributed bottling businesses and assets used in the bottling business to Bottling LLC in connection with the formation of Bottling LLC. As a result of the contributions of assets, PBG owns 93% and PepsiCo owns the remaining 7%.

Recent Acquisition

On March 13, 2002, we acquired the operations and exclusive right to manufacture, sell and distribute Pepsi-Cola's international beverages in Turkey for a purchase price of approximately $100 million in cash and assumed debt.

Principal Products

We are the world's largest manufacturer, seller and distributor of Pepsi-Cola beverages. Pepsi-Cola beverages sold by us include PEPSI-COLA, DIET PEPSI, PEPSI ONE, PEPSI TWIST, MOUNTAIN DEW, MOUNTAIN DEW CODE RED, AMP, LIPTON BRISK, LIPTON'S ICED TEA, SLICE, MUG, AQUAFINA, STARBUCKS FRAPPUCCINO, FRUITWORKS, SIERRA MIST, DOLE and SOBE and, outside the U.S., 7UP, PEPSI MAX, MIRINDA and KAS. We have the exclusive right to manufacture, sell and distribute Pepsi-Cola beverages in all or a portion of 41 states, the District of Columbia, eight Canadian provinces, Spain, Greece and Russia. In some of our territories, we also have the right to manufacture, sell and distribute soft drink products of other companies, including DR PEPPER, 7UP and ALL SPORT in the U.S. Approximately 79% of our volume is sold in the United States, and the remaining 21% is sold in Canada, Spain, Greece and Russia. We have an extensive distribution system in the United States and Canada. In Russia, Spain and Greece, we use a combination of direct store distribution and distribution through wholesalers, depending on local marketplace considerations.

Raw Materials and Other Supplies

We purchase the concentrates to manufacture Pepsi-Cola beverages and other soft drink products from PepsiCo and other soft-drink companies.

In addition to concentrates, we purchase sweeteners, glass and plastic bottles, cans, closures, syrup containers, other packaging materials and carbon dioxide. We generally purchase our raw materials, other than concentrates, from multiple suppliers. PepsiCo acts as our agent for the purchase of such raw materials. The Pepsi beverage agreements provide that, with respect to the soft drink

products of PepsiCo, all authorized containers, closures, cases, cartons and other packages and labels may be purchased only from manufacturers approved by PepsiCo. There are no materials or supplies used by us that are currently in short supply. The supply or cost of specific materials could be adversely affected by price changes, strikes, weather conditions, governmental controls or other factors.

Patents, Trademarks, Licenses and Franchises

Our portfolio of beverage products includes some of the best recognized trademarks in the world and includes PEPSI-COLA, DIET PEPSI, PEPSI ONE, PEPSI TWIST, MOUNTAIN DEW, MOUNTAIN DEW CODE RED, AMP, LIPTON BRISK, LIPTON'S ICED TEA, SLICE, MUG, AQUAFINA, STARBUCKS FRAPPUCCINO, FRUITWORKS, SIERRA MIST, DOLE, SOBE and outside the U.S., 7UP, PEPSI MAX, MIRINDA and KAS. The majority of our volume is derived from brands licensed from PepsiCo or PepsiCo joint ventures. In some of our territories, we also have the right to manufacture, sell and distribute soft drink products of other companies, including DR PEPPER, 7UP and ALL SPORT in the U.S.

We conduct our business primarily pursuant to PBG's beverage agreements with PepsiCo. Although Bottling LLC is not a direct party to these agreements, as the principal operating subsidiary of PBG, it enjoys certain rights and is subject to certain obligations as described below. These agreements give us the exclusive right to market, distribute, and produce beverage products of PepsiCo in authorized containers in specified territories.

Set forth below is a description of the Pepsi beverage agreements and other bottling agreements from which we benefit and under which we are obligated as the principal operating subsidiary of PBG.

Terms of the Master Bottling Agreement. The Master Bottling Agreement under which we manufacture, package, sell and distribute the cola beverages bearing the PEPSI-COLA and PEPSI trademarks was entered into in March of 1999. The Master Bottling Agreement gives us the exclusive and perpetual right to distribute cola beverages for sale in specified territories in authorized containers of the nature currently used by us. The Master Bottling Agreement provides that we will purchase our entire requirements of concentrates for the cola beverages from PepsiCo at prices, and on terms and conditions, determined from time to time by PepsiCo. PepsiCo may determine from time to time what types of containers to authorize for use by us. PepsiCo has no rights under the Master Bottling Agreement with respect to the prices at which we sell our products.

Under the Master Bottling Agreement we are obligated to:

(1) maintain such plant and equipment, staff, and distribution and vending facilities that are capable of manufacturing, packaging and distributing the cola beverages in sufficient quantities to fully meet the demand for these beverages in our territories;

(2) undertake adequate quality control measures prescribed by PepsiCo;

(3) push vigorously the sale of the cola beverages in our territories;

(4) increase and fully meet the demand for the cola beverages in our territories;

(5) use all approved means and spend such funds on advertising and other forms of marketing beverages as may be reasonably required to meet the objective; and

(6) maintain such financial capacity as may be reasonably necessary to assure performance under the Master Bottling Agreement by us.

The Master Bottling Agreement requires us to meet annually with PepsiCo to discuss plans for the ensuing year and the following two years. At such meetings, we are obligated to present plans that set out in reasonable detail our marketing plan, our management plan and advertising plan with respect to the cola beverages for the year. We must also present a financial plan showing that we have the financial capacity to perform our duties and obligations under the Master Bottling Agreement for that year, as well as sales, marketing, advertising and capital expenditure plans for the two years following such year. PepsiCo has the right to approve such plans, which approval shall not be unreasonably withheld. In 2001, PepsiCo approved our annual plan.

If we carry out our annual plan in all material respects, we will be deemed to have satisfied our obligations to push vigorously the sale of the cola beverages, increase and fully meet the demand for the cola beverages in our territories and maintain the financial capacity required under the Master Bottling Agreement. Failure to present a plan or carry out approved plans in all material respects would constitute an event of default that, if not cured within 120 days of notice of the failure, would give PepsiCo the right to terminate the Master Bottling Agreement.

If we present a plan that PepsiCo does not approve, such failure shall constitute a primary consideration for determining whether we have satisfied our obligations to maintain our financial capacity, push vigorously the sale of the cola beverages and increase and fully meet the demand for the cola beverages in our territories.

If we fail to carry out our annual plan in all material respects in any segment of our territory, whether defined geographically or by type of market or outlet, and if such failure is not cured within six months of notice of the failure, PepsiCo may reduce the territory covered by the Master Bottling Agreement by eliminating the territory, market or outlet with respect to which such failure has occurred.

PepsiCo has no obligation to participate with us in advertising and marketing spending, but it may contribute to such expenditures and undertake independent advertising and marketing activities, as well as cooperative advertising and sales promotion programs that would require our cooperation and support. Although PepsiCo has advised us that it intends to continue to provide cooperative advertising funds, it is not obligated to do so under the Master Bottling Agreement.

The Master Bottling Agreement provides that PepsiCo may in its sole discretion reformulate any of the cola beverages or discontinue them, with some limitations, so long as all cola beverages are not discontinued. PepsiCo may also introduce new beverages under the PEPSI-COLA trademarks or any modification thereof. If that occurs, we will be obligated to manufacture, package, distribute and sell such new beverages with the same obligations as then exist with respect to other cola beverages. We are prohibited from producing or handling cola products, other than those of PepsiCo, or products or packages that imitate, infringe or cause confusion with the products, containers or trademarks of PepsiCo. The Master Bottling Agreement also imposes requirements with respect to the use of PepsiCo's trademarks, authorized containers, packaging and labeling.

If we acquire control, directly or indirectly, of any bottler of cola beverages, we must cause the acquired bottler to amend its bottling appointments for the cola beverages to conform to the terms of the Master Bottling Agreement.

Under the Master Bottling Agreement, PepsiCo has agreed not to withhold approval for any acquisition of rights to manufacture and sell PEPSI trademarked cola beverages within a specific area—currently representing approximately 13.2% of PepsiCo's U.S. bottling system in terms of volume—if we have successfully negotiated the acquisition and, in PepsiCo's reasonable judgment, satisfactorily performed our obligations under the Master Bottling Agreement. We have agreed not to

acquire or attempt to acquire any rights to manufacture and sell PEPSI trademarked cola beverages outside of that specific area without PepsiCo's prior written approval.

The Master Bottling Agreement is perpetual, but may be terminated by PepsiCo in the event of our default. Events of default include:

(1) PBG's insolvency, bankruptcy, dissolution, receivership or the like;

(2) any disposition of any voting securities of one of our bottling subsidiaries or substantially all of our bottling assets without the consent of PepsiCo;

(3) PBG's entry into any business other than the business of manufacturing, selling or distributing non-alcoholic beverages or any business which is directly related and incidental to such beverage business; and

(4) any material breach under the contract that remains uncured for 120 days after notice by PepsiCo.

An event of default will also occur if any person or affiliated group acquires any contract, option, conversion privilege, or other right to acquire, directly or indirectly, beneficial ownership of more than 15% of any class or series of PBG's voting securities without the consent of PepsiCo. As of February 21, 2002, no shareholder of PBG, other than PepsiCo, holds more than 7.0% of PBG's Common Stock.

PBG is prohibited from assigning, transferring or pledging the Master Bottling Agreement, or any interest therein, whether voluntarily, or by operation of law, including by merger or liquidation, without the prior consent of PepsiCo.

The Master Bottling Agreement was entered into by PBG in the context of its separation from PepsiCo and, therefore, its provisions were not the result of arm's-length negotiations. Consequently, the agreement contains provisions that are less favorable to us than the exclusive bottling appointments for cola beverages currently in effect for independent bottlers in the United States.

Terms of the Non-Cola Bottling Agreements. The beverage products covered by the non-cola bottling agreements are beverages licensed to PBG by PepsiCo, consisting of MOUNTAIN DEW, DIET MOUNTAIN DEW, MOUNTAIN DEW CODE RED, SLICE, SIERRA MIST, AQUAFINA, FRUITWORKS, MUG root beer and cream soda. The non-cola bottling agreements contain provisions that are similar to those contained in the Master Bottling Agreement with respect to pricing, territorial restrictions, authorized containers, planning, quality control, transfer restrictions, term, and related matters. PBG's non-cola bottling agreements will terminate if PepsiCo terminates PBG's Master Bottling Agreement. The exclusivity provisions contained in the non-cola bottling agreements would prevent us from manufacturing, selling or distributing beverage products which imitate, infringe upon, or cause confusion with, the beverage products covered by the non-cola bottling agreements. PepsiCo may also elect to discontinue the manufacture, sale or distribution of a non-cola beverage and terminate the applicable non-cola bottling agreement upon six months notice to PBG.

PBG also has agreements with PepsiCo granting PBG exclusive rights to distribute AMP and DOLE in all of PBG's territories and SOBE in certain specified territories. The distribution agreements contain provisions generally similar to those in the Master Bottling Agreement as to use of trademarks, trade names, approved containers and labels and causes for termination. Some of these beverage agreements have limited terms and, in most instances, prohibit us from dealing in similar beverage products.

Terms of the Master Syrup Agreement. The Master Syrup Agreement grants PBG the exclusive right to manufacture, sell and distribute fountain syrup to local customers in PBG's territories. The Master Syrup Agreement also grants PBG the right to act as a manufacturing and delivery agent for national accounts within PBG's territories that specifically request direct delivery without using a middleman. In addition, PepsiCo may appoint PBG to manufacture and deliver fountain syrup to national accounts that elect delivery through independent distributors. Under the Master Syrup Agreement, PBG will have the exclusive right to service fountain equipment for all of the national account customers within PBG's territories. The Master Syrup Agreement provides that the determination of whether an account is local or national is at the sole discretion of PepsiCo.

The Master Syrup Agreement contains provisions that are similar to those contained in the Master Bottling Agreement with respect to pricing, territorial restrictions with respect to local customers and national customers electing direct-to-store delivery only, planning, quality control, transfer restrictions and related matters. The Master Syrup Agreement has an initial term of five years and is automatically renewable for additional five-year periods unless PepsiCo terminates it for cause. PepsiCo has the right to terminate the Master Syrup Agreement without cause at the conclusion of the initial five-year period or at any time during a renewal term upon twenty-four months notice. In the event PepsiCo terminates the Master Syrup Agreement without cause, PepsiCo is required to pay us the fair market value of PBG's rights thereunder.

PBG's Master Syrup Agreement will terminate if PepsiCo terminates PBG's Master Bottling Agreement.

Terms of Other U.S. Bottling Agreements. The bottling agreements between PBG and other licensors of beverage products, including Cadbury Schweppes plc— for DR PEPPER, 7UP, SCHWEPPES and CANADA DRY, the Pepsi/Lipton Tea Partnership— for LIPTON BRISK and LIPTON'S ICED TEA, the North American Coffee Partnership—for STARBUCKS FRAPPUCCINO, and Monarch Company—for ALL SPORT, contain provisions generally similar to those in the Master Bottling Agreement as to use of trademarks, trade names, approved containers and labels, sales of imitations, and causes for termination. Some of these beverage agreements have limited terms and, in most instances, prohibit us from dealing in similar beverage products.

Terms of the Country Specific Bottling Agreements. The country specific bottling agreements contain provisions similar to those contained in the Master Bottling Agreement and the non-cola bottling agreements and, in Canada, the Master Syrup Agreement with respect to authorized containers, planning, quality control, transfer restrictions, causes for termination and related matters. These bottling agreements differ from the Master Bottling Agreement because, except for Canada, they include both fountain syrup and non-fountain beverages. These bottling agreements also differ from the Master Bottling Agreement with respect to term and contain certain provisions that have been modified to reflect the laws and regulations of the applicable country. For example, the bottling agreements in Spain do not contain a restriction on the sale and shipment of Pepsi-Cola beverages into our territory by others in response to unsolicited orders.

Seasonality

Our peak season is the warm summer months beginning with Memorial Day and ending with Labor Day. Approximately 75% of our operating income is typically earned during the second and third quarters. Over 80% of cash flow from operations is typically generated in the third and fourth quarters.

Competition

The carbonated soft drink market and the non-carbonated beverage market are highly competitive. Our competitors in these markets include bottlers and distributors of nationally advertised and marketed products, bottlers and distributors of regionally advertised and marketed products, as well as bottlers of private label soft drinks sold in chain stores. We compete primarily on the basis of advertising and marketing programs to create brand awareness, price and promotions, retail space management, customer service, consumer points of access, new products, packaging innovations and distribution methods. We believe that brand recognition, availability and consumer and customer goodwill are primary factors affecting our competitive position.

Governmental Regulation Applicable to Bottling LLC

Our operations and properties are subject to regulation by various federal, state and local governmental entities and agencies as well as foreign government entities. As a producer of food products, we are subject to production, packaging, quality, labeling and distribution standards in each of the countries where we have operations, including, in the United States, those of the federal Food, Drug and Cosmetic Act. The operations of our production and distribution facilities are subject to the laws and regulations of, among other agencies, the Department of Transportation, and various federal, state and local occupational and environmental laws. These laws and regulations include, in the United States, the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act and laws relating to the operation, maintenance of and financial responsibility for, fuel storage tanks. We believe that our current legal, operational and environmental compliance programs adequately address such concerns and that we are in substantial compliance with applicable laws and regulations. We do not anticipate making any material expenditures in connection with environmental remediation and compliance. However, compliance with, or any violation of, future laws or regulations could require material expenditures by us or otherwise have a material adverse effect on our business, financial condition and results of operations.

Bottle and Can Legislation

In all but a few of our United States and Canadian markets, we offer our bottle and can beverage products in non-refillable containers. Legislation has been enacted in certain states and Canadian provinces where we operate that generally prohibits the sale of certain beverages unless a deposit or levy is charged for the container. These include Connecticut, Delaware, Maine, Massachusetts, Michigan, New York, Oregon, California, British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia and Quebec.

Maine, Massachusetts and Michigan have statutes that require us to pay all or a portion of unclaimed container deposits to the state and California imposes a levy on beverage containers to fund a waste recovery system.

In addition to the Canadian deposit legislation described above, Ontario, Canada, currently has a regulation requiring that 30% of all soft drinks sold in Ontario be bottled in refillable containers. This regulation is currently being reviewed by the Canadian Ministry of the Environment.

The European Commission issued a packaging and packing waste directive that was incorporated into the national legislation of most member states. This has resulted in targets being set for the recovery and recycling of household, commercial and industrial packaging waste and imposes substantial responsibilities upon bottlers and retailers for implementation.

We are not aware of similar material legislation being proposed or enacted in any other areas served by us. We are unable to predict, however, whether such legislation will be enacted or what impact its enactment would have on our business, financial condition or results of operations.

Soft Drink Excise Tax Legislation

Specific soft drink excise taxes have been in place in certain states for several years. The states in which we operate that currently impose such a tax are West Virginia, Arkansas and Tennessee and, with respect to fountain syrup only, Washington. Value-added taxes on soft drinks vary in our territories located in Canada, Spain, Greece and Russia, but are consistent with the value-added tax rate for other consumer products.

We are not aware of any material soft drink taxes that have been enacted in any other market served by us. We are unable to predict, however, whether such legislation will be enacted or what impact its enactment would have on our business, financial condition or results of operations.

Trade Regulation

As a manufacturer, seller and distributor of bottled and canned soft drink products of PepsiCo and other soft drink manufacturers in exclusive territories in the United States and internationally, we are subject to antitrust laws. Under the Soft Drink Interbrand Competition Act, soft drink bottlers operating in the United States, such as us, may have an exclusive right to manufacture, distribute and sell a soft drink product in a geographic territory if the soft drink product is in substantial and effective competition with other products of the same class in the same market or markets. We believe that there is such substantial and effective competition in each of the exclusive geographic territories in which we operate.

California Carcinogen and Reproductive Toxin Legislation

A California law requires that any person who exposes another to a carcinogen or a reproductive toxin must provide a warning to that effect. Because the law does not define quantitative thresholds below which a warning is not required, virtually all manufacturers of food products are confronted with the possibility of having to provide warnings due to the presence of trace amounts of defined substances. Regulations implementing the law exempt manufacturers from providing the required warning if it can be demonstrated that the defined substances occur naturally in the product or are present in municipal water used to manufacture the product. We have assessed the impact of the law and its implementing regulations on our beverage products and have concluded that none of our products currently require a warning under the law. We cannot predict whether or to what extent food industry efforts to minimize the law's impact on food products will succeed. We also cannot predict what impact, either in terms of direct costs or diminished sales, imposition of the law may have.

Employees

As of December 29, 2001, we employed approximately 37,000 full-time workers, of whom approximately 30,000 were employed in the United States. Approximately 8,800 of our full-time workers in the United States are union members. We consider relations with our employees to be good and have not experienced significant interruptions of operations due to labor disagreements with the exception of a labor dispute at certain of our New Jersey facilities, which was successfully resolved on July 22, 2001.

Financial Information on Industry Segments and Geographic Areas

See Note 16 to Bottling LLC's Consolidated Financial Statements set forth in Item 8 below.

Item 2. Properties

We operate 70 soft drink production facilities worldwide, of which 62 are owned and 8 are leased. Of our 328 distribution facilities, 264 are owned and 64 are leased. We believe that our bottling, canning and syrup filling lines and our distribution facilities are sufficient to meet present needs. We also lease headquarters office space in Somers, New York.

We also own or lease and operate approximately 28,000 vehicles, including delivery trucks, delivery and transport tractors and trailers and other trucks and vans used in the sale and distribution of our soft drink products. We also own more than 1.2 million soft drink dispensing and vending machines.

With a few exceptions, leases of plants in the United States and Canada are on a long-term basis, expiring at various times, with options to renew for additional periods. Most international plants are leased for varying and usually shorter periods, with or without renewal options. We believe that our properties are in good operating condition and are adequate to serve our current operational needs.

Item 3. Legal Proceedings

From time to time we are a party to various litigation matters incidental to the conduct of our business. There is no pending or, to Bottling LLC's best knowledge, threatened legal proceeding to which we are a party that, in the opinion of management, is likely to have a material adverse effect on our future financial results.

Item 4. Submission of Matters to a Vote of Shareholders

None.

Executive Officers of the Registrant

Set forth below is information pertaining to the executive officers of Bottling LLC as of February 21, 2002:

John T. Cahill, 44, is the Principal Executive Officer of Bottling LLC. Mr. Cahill is currently the Chief Executive Officer of PBG. Previously, Mr. Cahill served as PBG's President and Chief Operating Officer from August 2000 to September 2001. Mr. Cahill has been a member of PBG's Board of Directors since January 1999 and served as PBG's Executive Vice President and Chief Financial Officer prior to becoming President and Chief Operating Officer in August 2000. He was Executive Vice President and Chief Financial Officer of the Pepsi-Cola Company from April 1998 until November 1998. Prior to that, Mr. Cahill was Senior Vice President and Treasurer of PepsiCo, having been appointed to that position in April 1997. In 1996, he became Senior Vice President and Chief Financial Officer of Pepsi-Cola North America. Mr. Cahill joined PepsiCo in 1989 where he held several other senior financial positions through 1996.

Alfred H. Drewes, 46, is the Principal Financial Officer of Bottling LLC. He is also the Senior Vice President and Chief Financial Officer of PBG. Appointed to this position in June 2001, Mr. Drewes previously served as Senior Vice President and Chief Financial Officer of Pepsi Beverages International ("PBI"). Mr. Drewes joined PepsiCo in 1982 as a financial analyst in New Jersey. During the next nine years, he rose through increasingly responsible finance positions within Pepsi-Cola North America in field operations and headquarters. In 1991, Mr. Drewes joined PBI as Vice President of Manufacturing Operations, with responsibility for the global concentrate supply organization.

Andrea L. Forster, 42, is the Principal Accounting Officer of Bottling LLC. She is also Vice President and Controller of PBG. In September 2000, Ms. Forster was also named Corporate Compliance Officer for PBG. Following several years with Deloitte Haskins and Sells, Ms. Forster joined PepsiCo in 1987 as a Senior Analyst in External Reporting. She progressed through a number of positions in the accounting and reporting functions and, in 1998, was appointed Assistant Controller of the Pepsi-Cola Company. She was named Assistant Controller of PBG in 1999.

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

There is no public trading market for the ownership interest of Bottling LLC.

Item 6. Selected Financial Data

SELECTED FINANCIAL AND OPERATING DATA

in millions

Fiscal years ended	2001	2000(1)	1999	1998	1997	1996
Statement of Operations Data:						
Net revenues	$8,443	$7,982	$7,505	$ 7,041	$ 6,592	$ 6,603
Cost of sales	4,580	4,405	4,296	4,181	3,832	3,844
Gross profit	3,863	3,577	3,209	2,860	2,760	2,759
Selling, delivery and administrative expenses	3,185	2,986	2,813	2,583	2,425	2,392
Unusual impairment and other charges and credits (2)	—	—	(16)	222	—	—
Operating income	678	591	412	55	335	367
Interest expense, net	78	89	129	157	160	163
Foreign currency loss (gain)	—	1	1	26	(2)	4
Minority interest	14	8	5	4	4	7
Income (loss) before income taxes	586	493	277	(132)	173	193
Income tax (benefit) expense (3)	(1)	22	4	(1)	1	6
Net income (loss)	$ 587	$ 471	$ 273	$ (131)	$ 172	$ 187
Balance Sheet Data (at period end):						
Total assets	$8,677	$8,228	$7,799	$ 7,227	$ 7,095	$ 6,947
Long-term debt:						
Allocation of PepsiCo long-term debt	—	—	—	2,300	2,300	2,300
Due to third parties	2,299	2,286	2,284	61	96	127
Total long-term debt	2,299	2,286	2,284	2,361	2,396	2,427
Minority interest	154	147	141	112	93	102
Accumulated other comprehensive loss	(416)	(253)	(222)	(238)	(184)	(102)
Owners' equity	4,596	4,321	3,928	3,283	3,336	3,128

(1) Our fiscal year 2000 results were impacted by the inclusion of an extra week in our fiscal year. The extra week increased net income by $12 million.

(2) Unusual impairment and other charges and credits comprises of the following:

- $45 million non-cash compensation charge in the second quarter of 1999.
- $53 million vacation accrual reversal in the fourth quarter of 1999.
- $8 million restructuring reserve reversal in the fourth quarter of 1999.
- $222 million charge related to the restructuring of our Russian bottling operations and the separation of Pepsi-Cola North America's concentrate and bottling organizations in the fourth quarter of 1998.

(3) Fiscal Year 2001 includes Canada tax law change benefits of $25 million.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

See "Management's Financial Review" set forth in Item 8 below.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

See "Management's Financial Review" set forth in Item 8 below.

Item 8. Financial Statements and Supplementary Data.

MANAGEMENT'S FINANCIAL REVIEW

OVERVIEW

Bottling Group, LLC (collectively referred to as "Bottling LLC," "we," "our" and "us") is the principal operating subsidiary of The Pepsi Bottling Group, Inc. ("PBG") and consists of substantially all of the operations and assets of PBG. Bottling LLC, which is 93% owned by PBG and is fully consolidated, consists of bottling operations located in the United States, Canada, Spain, Greece and Russia. Prior to our formation, we were an operating unit of PepsiCo, Inc. ("PepsiCo").

The following discussion and analysis covers the key drivers behind our success in 2001 and is broken down into six major sections. The first three sections provide an overview, discuss related party transactions, and focus on items that affect the comparability of historical or future results. The next two sections provide an analysis of our results of operations and liquidity and financial condition. The last section contains a discussion of our market risks and cautionary statements. The discussion and analysis throughout Management's Financial Review should be read in conjunction with the Consolidated Financial Statements and the related accompanying notes.

Constant Territory

We believe that constant territory performance results are the most appropriate indicators of operating trends and performance, particularly in light of our stated intention of acquiring additional bottling territories, and are consistent with industry practice. Constant territory operating results are derived by adjusting current year results to exclude significant current year acquisitions and adjusting prior year results to include the results of significant prior year acquisitions, as if they had occurred on the first day of the prior fiscal year. In addition, 2000 constant territory results exclude the impact from an additional week in our fiscal year ("53rd week"), which occurs every five or six years, as our fiscal year ends on the last Saturday in December. Constant territory results also exclude any unusual impairment and other charges and credits discussed below and in Note 4 to the Consolidated Financial Statements.

Use of EBITDA

EBITDA, which is computed as operating income plus the sum of depreciation and amortization, is a key indicator management and the industry use to evaluate operating performance. It is not, however, required under accounting principles generally accepted in the United States of America ("GAAP"), and should not be considered an alternative to measurements required by GAAP such as net income or cash flows. In addition, EBITDA excludes the impact of the non-cash portion of the unusual impairment and other charges and credits discussed below and in Note 4 to the Consolidated Financial Statements.

Critical Accounting Policies

The preparation of our Consolidated Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts in our Consolidated Financial Statements and the related accompanying notes. We use our best judgment based on our knowledge of existing facts and circumstances and actions that we may undertake in the future, as well as advice of external experts, in determining the estimates that affect our Consolidated Financial Statements. We have policies and procedures in place to ensure conformity with GAAP and we focus your attention on the following:

Revenue Recognition We recognize revenue when our products are delivered to customers. Sales terms do not allow a right of return unless product freshness dating has expired.

Allowance for Doubtful Accounts We determine our allowance for doubtful accounts based on an evaluation of the aging of our receivable portfolio. Our reserve contemplates our historical loss rate on receivables and the economic environment in which we operate.

Recoverability of Long-Lived Assets We review all long-lived assets, including intangible assets, when facts and circumstances indicate that the carrying value of the asset may not be recoverable. When necessary, we write down an impaired asset to its estimated fair value based on the best information available. Estimated fair value is generally based on either appraised value or measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows, which are discounted based on our weighted-average cost of capital.

Financial Instruments and Risk Management We use derivative instruments to hedge against the risk of adverse movements in the price of certain commodities and fuel used in our operations. Our use of derivative instruments is limited to interest rate swaps, forward contracts, futures and options on futures contracts. Our company policy prohibits the use of derivative instruments for trading or speculative purposes, and we have procedures in place to monitor and control their use. All derivative instruments are recorded at fair value as either assets or liabilities in our Consolidated Balance Sheets. The fair value of our derivatives is generally based on quoted market prices. The evaluation of hedge effectiveness is subject to assumptions based on terms and timing of underlying exposures.

Commitments and Contingencies We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Liabilities related to commitments and contingencies are recognized when a loss is probable and reasonably estimable.

For a more detailed discussion of our significant accounting policies, refer to Note 2 of our Consolidated Financial Statements.

RELATED PARTY TRANSACTIONS

At the time of PBG's initial public offering we entered into a number of agreements with PepsiCo. Although we are not a direct party to these contracts, as the principal operating subsidiary of PBG, we derive direct benefit from them. Accordingly, set forth below are the most significant agreements that govern our relationship with PepsiCo:

(1) the master bottling agreement for cola beverages bearing the "Pepsi-Cola" and "Pepsi" trademark in the United States; bottling and distribution agreements for non-cola products in

the United States, including Mountain Dew; and a master fountain syrup agreement in the United States;

(2) agreements similar to the master bottling agreement and the non-cola agreements for each specific country, including Canada, Spain, Greece and Russia, as well as a fountain syrup agreement similar to the master syrup agreement for Canada;

(3) a shared services agreement whereby PepsiCo provides us or we provide PepsiCo with certain administrative support, including procurement of raw materials, transaction processing, such as accounts payable and credit and collection, certain tax and treasury services, and information technology maintenance and systems development. The amounts paid or received under this contract are equal to the actual costs incurred by the company providing the service. From 1998 through 2001, a PepsiCo affiliate provided casualty insurance to us; and

(4) transition agreements that provide certain indemnities to the parties, and provide for the allocation of tax and other assets, liabilities,and obligations arising from periods prior to the initial public offering. Under our tax separation agreement, PepsiCo maintains full control and absolute discretion for any combined or consolidated tax filings for tax periods ending on or before the initial public offering. PepsiCo has contractually agreed to act in good faith with respect to all tax audit matters affecting us. In addition, PepsiCo has agreed to use their best efforts to settle all joint interests in any common audit issue on a basis consistent with prior practice.

We purchase concentrate from PepsiCo that is used in the production of carbonated soft drinks and other ready-to-drink beverages. The price of concentrate is determined annually by PepsiCo at its sole discretion. We also produce or distribute other products and purchase finished goods and concentrate through various arrangements with PepsiCo or PepsiCo joint ventures. We reflect such purchases in cost of sales.

We share a business objective with PepsiCo of increasing the availability and consumption of Pepsi-Cola beverages. Accordingly, PepsiCo, at its sole discretion, provides us with various forms of marketing support to promote its beverages. This support covers a variety of initiatives, including marketplace support, marketing programs, capital equipment investment, and shared media expense. Based on the objective of the programs and initiatives, we record marketing support as an adjustment to net revenues or as a reduction of selling, delivery and administrative expense. There are no conditions or other requirements that could result in a repayment of marketing support received.

We manufacture and distribute fountain products and provide fountain equipment service to PepsiCo customers in some territories in accordance with the Pepsi beverage agreements. Amounts received from PepsiCo for these transactions are offset by the cost to provide these services and are reflected in selling, delivery and administrative expenses. We pay a royalty fee to PepsiCo for the Aquafina trademark.

Refer to the Items That Affect Historical or Future Comparability section of Management's Financial Review for further discussions of concentrate supply and bottler incentives. In addition, refer to Note 2 of our Consolidated Financial Statements for further discussions on accounting for bottler incentives and Note 17 for further discussions on our relationship with PepsiCo.

ITEMS THAT AFFECT HISTORICAL OR FUTURE COMPARABILITY

New Accounting Standards

During 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 141, "Business Combinations," which requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001, and SFAS 142, "Goodwill and Other Intangible Assets," which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment. Effective the first day of fiscal year 2002 we will no longer amortize goodwill and certain franchise rights, but will evaluate them for impairment annually. We have completed the initial impairment review required by SFAS 142 and have determined that our intangible assets are not impaired. The adoption of SFAS 142 will reduce our fiscal year 2002 amortization expense by approximately $128 million.

In addition, during 2001 the FASB also issued SFAS 143, "Accounting for Asset Retirement Obligations" and SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It requires that we recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS 144 superseded SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and Accounting Principles Board Opinion 30, "Reporting the Results of Operations – Reporting the Effects of a Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 establishes a single accounting model for the impairment of long-lived assets and broadens the presentation of discontinued operations to include more disposal transactions. SFAS 143 is effective for fiscal year 2003 and SFAS 144 is effective for fiscal year 2002 and we do not anticipate that the adoption of these statements will have a material impact on our Consolidated Financial Statements.

During 2000 and 2001, the Emerging Issues Task Force ("EITF") addressed various issues related to the income statement classification of certain promotional payments. In May 2000, the EITF reached a consensus on Issue 00-14, "Accounting for Certain Sales Incentives," addressing the recognition and income statement classification of various sales incentives. Among its requirements, the consensus will require the costs related to consumer coupons currently classified as marketing costs to be classified as a reduction of revenue. In January 2001, the EITF reached a consensus on Issue 00-22, "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." EITF 00-22 requires that certain volume-based cash rebates to customers currently recognized as marketing costs be classified as a reduction of revenue. In April 2001, the EITF reached a consensus on Issue 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." EITF 00-25 addresses the income statement classification of consideration, other than that directly addressed in EITF 00-14, from a vendor to a reseller or another party that purchases the vendor's products. In November 2001, the EITF codified Issues 00-14, 00-22 and 00-25 as Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." EITF 00-22 was effective for the first quarter of 2001 and was not material to our Consolidated Financial Statements. The remainder of EITF 01-9 is effective for 2002 and we do not anticipate that the adoption will have a material impact on our Consolidated Financial Statements.

Our Consolidated Financial Statements reflect the implementation of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, on the first day of fiscal year 2001. SFAS 133, which was issued in 1998, establishes accounting and reporting standards for hedging activities and derivative instruments, including certain derivative instruments embedded in other contracts, which are collectively referred to as derivatives. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value.

Asset Lives

At the beginning of fiscal year 2000, we changed the estimated useful lives of certain categories of assets primarily to reflect the success of our preventive maintenance programs in extending the useful lives of these assets. The changes, which are detailed in Note 3 to the Consolidated Financial Statements, lowered total depreciation cost by approximately $69 million in 2000 as compared to 1999. The estimated useful lives of our assets were the same in 2001 and 2000.

Fiscal Year

Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. Fiscal years 2001 and 1999 consisted of 52 weeks while fiscal year 2000 consisted of 53 weeks. The following table illustrates the approximate dollar and percentage point impacts that the extra week had on our operating results:

(dollars in millions)		Percentage Points	
	Dollars	2001 vs. 2000	2000 vs. 1999
Volume	N/A	(2)	2
Net Revenues	$ 113	(1)	2
Net Income	$ 12	(3)	4
EBITDA	$ 14	(2)	2

PBG's Initial Public Offering

PBG was incorporated in Delaware in January 1999 and, prior to its formation, PBG was an operating unit of PepsiCo. PBG became a public company through an initial public offering on March 31, 1999. PBG's initial public offering consisted of 100 million shares of common stock sold to the public, equivalent to 65% of its outstanding common stock, leaving PepsiCo the owner of the remaining 35% of outstanding common stock. As a result of PBG's share repurchase program, PepsiCo's ownership has increased to 37.7% of the outstanding common stock and 100% of PBG's Class B common stock, together representing 42.8% of the voting power of all classes of PBG's voting stock at December 29, 2001. In addition, PepsiCo owns 7% of the equity of Bottling LLC, as of December 29, 2001. We are fully consolidated by PBG.

For the period prior to PBG's initial public offering and the formation of Bottling LLC, we prepared our Consolidated Financial Statements as a "carve-out" from the financial statements of PepsiCo using the historical results of operations and assets and liabilities of our business. Certain costs reflected in the Consolidated Financial Statements may not necessarily be indicative of the costs that we would have incurred had we operated as an independent, stand-alone entity from the first day of fiscal year 1999. These costs include an allocation of PepsiCo's corporate overhead and interest expense:

- We included overhead related to PepsiCo's corporate administrative functions based on a specific identification of PepsiCo's administrative costs relating to the bottling operations and, to the extent that such identification was not practicable, based upon the percentage of our revenues to PepsiCo's consolidated net revenues. These costs are included in selling, delivery and administrative expenses in our Consolidated Statements of Operations.
- We allocated $2.3 billion of PepsiCo's debt to our business and charged interest expense on this debt using PepsiCo's weighted-average interest rate. Once we issued $2.3 billion of third-party debt in the first quarter of 1999, our actual interest rates were used to determine interest expense for the remainder of the year.

The amounts of the historical allocations described above are as follows:

(dollars in millions)	1999

Corporate overhead expense	$ 3
Interest expense	$ 16
PepsiCo's weighted-average interest rate	5.8%

Unusual Impairment and Other Charges and Credits

Our operating results were affected by the following unusual charges and credits:

(dollars in millions)	1999
Non-cash compensation charge	$ 45
Vacation policy change	(53)
Asset impairment and restructuring charges	(8)
	$ (16)

- Non-cash Compensation Charge

  In connection with the completion of PBG's initial public offering, PepsiCo vested substantially all non-vested PepsiCo stock options held by our employees. As a result, we incurred a $45 million non-cash compensation charge in the second quarter of 1999, equal to the difference between the market price of the PepsiCo capital stock and the exercise price of these options at the vesting date.

- Vacation Policy Change

  As a result of changes to our employee benefit and compensation plans in 1999, employees now earn vacation time evenly throughout the year based upon service rendered. Previously, employees were fully vested at the beginning of each year. As a result of this change, we reversed an accrual of $53 million into income in 1999.

- Asset Impairment and Restructuring Charge

  In the fourth quarter of 1999, $8 million of the remaining restructuring reserve recorded in 1998 relating to an asset impairment and restructuring in our Russian operations, was reversed into income. The reversal was necessitated as actual costs incurred to renegotiate manufacturing and leasing contracts in Russia and to reduce the number of employees were less than the amounts originally estimated.

Comparability of our operating results may also be affected by the following:

Concentrate Supply

We buy concentrate, the critical flavor ingredient for our products, from PepsiCo, its affiliates and other brand owners who are the sole authorized suppliers. Concentrate prices are typically determined annually.

In February 2001, PepsiCo announced an increase of approximately 3% in the price of U.S. concentrate. PepsiCo has recently announced a further increase of approximately 3%, effective February 2002. Amounts paid or payable to PepsiCo and its affiliates for concentrate were $1,584 million, $1,507 million and $1,418 million in 2001, 2000 and 1999, respectively.

Bottler Incentives

PepsiCo and other brand owners provide us with various forms of marketing support. The level of this support is negotiated annually and can be increased or decreased at the discretion of the brand owners. This marketing support is intended to cover a variety of programs and initiatives, including direct marketplace support, capital equipment funding and shared media, and advertising support. Direct marketplace support is primarily funding by PepsiCo and other brand owners of sales discounts

and similar programs, and is recorded as an adjustment to net revenues. Capital equipment funding is designed to support the purchase and placement of marketing equipment and is recorded as a reduction to selling, delivery and administrative expenses. Shared media and advertising support is recorded as a reduction to advertising and marketing expense within selling, delivery and administrative expenses. There are no conditions or other requirements that could result in a repayment of marketing support received.

The total bottler incentives we received from PepsiCo and other brand owners were $598 million, $566 million and $563 million for 2001, 2000 and 1999, respectively. Of these amounts, we recorded $293 million, $277 million and $263 million for 2001, 2000 and 1999, respectively, in net revenues, and the remainder as a reduction of selling, delivery and administrative expenses. The amount of our bottler incentives received from PepsiCo was more than 90% of our total bottler incentives in each of the three years, with the balance received from the other brand owners.

Employee Benefit Plan Changes

We made several changes to our employee benefit plans that took effect in fiscal year 2000. The changes were made to our vacation policy, pension and retiree medical plans and included some benefit enhancements as well as cost containment provisions. These changes did not have a significant impact on our financial results in 2001 or 2000.

In 1999, we implemented a matching company contribution to our 401(k) plan that began in 2000. The match is dependent upon the employee's contribution and years of service. The matching company contribution was approximately $17 million and $15 million in 2001 and 2000, respectively.

In the fourth quarter of 1999 we recognized a $16 million compensation charge related to full-year 1999 performance. This expense was one-time in nature and was for the benefit of our management employees, reflecting our successful operating results as well as providing certain incentive-related features.

Bottling Group, LLC
Consolidated Statements of Operations
(in millions)

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

	2001	2000	1999
Net Revenues	$8,443	$7,982	$7,505
Cost of sales	4,580	4,405	4,296
Gross Profit	3,863	3,577	3,209
Selling, delivery and administrative expenses	3,185	2,986	2,813
Unusual impairment and other charges and credits	—	—	(16)
Operating Income	678	591	412
Interest expense	132	136	140
Interest income	54	47	11
Foreign currency loss	—	1	1
Minority interest	14	8	5
Income Before Income Taxes	586	493	277
Income tax expense before rate change	24	22	4
Income tax rate change benefit	(25)	—	—
Net Income	$ 587	$ 471	$ 273

See accompanying notes to Consolidated Financial Statements.

MANAGEMENT'S FINANCIAL REVIEW

RESULTS OF OPERATIONS

	Fiscal 2001 vs. 2000*		Fiscal 2000 vs. 1999*	
	Reported Change	Constant Territory Change	Reported Change	Constant Territory Change
EBITDA	12%	13%	18%	16%
Volume	2%	3%	3%	1%
Net Revenue per Case	3%	3%	3%	3%

* Fiscal years 2001 and 1999 consisted of 52 weeks while fiscal year 2000 consisted of 53 weeks.

EBITDA

On a reported basis, EBITDA was $1,192 million in 2001, representing a 12% increase over 2000, including an approximate 2 percentage point negative impact from the 53rd week in 2000. Constant territory growth of 13% for 2001 was a reflection of higher pricing, an increased mix of higher margin cold drink volume, and solid volume growth in the U.S., as well as continued growth in our operations outside the U.S., particularly in Russia. These increases were partially offset by investments in our cold drink infrastructure.

In 2000, reported EBITDA was $1,062 million, representing an 18% increase over 1999, with the 53rd week contributing approximately 2 percentage points of the growth. Constant territory EBITDA was 16% higher than 1999, driven by continued pricing improvements in our take-home segment, mix shifts to higher-margin cold drink volume, favorable cost of sales trends, and improved results outside the United States.

Volume

Our worldwide physical case volume grew 2% in 2001, including an approximate 2 percentage point negative impact from the 53rd week in 2000. Constant territory volume growth was 3% in 2001, reflecting U.S. growth of more than 1% and 10% growth outside the United States. U.S. growth was led by the introductions of Mountain Dew Code Red and Pepsi Twist, expanded distribution of Sierra Mist, strong growth in Aquafina, as well as the integration of SoBe in the majority of our markets. This growth was partially offset by declines in brand Pepsi. New product innovation and consistent in-store execution resulted in positive cold drink and take-home volume growth in the United States. In addition, take-home volume growth in the U.S. benefited from significant growth in mass merchandiser volume. Outside the U.S., all countries delivered solid volume growth in 2001, led by our operations in Russia. Volume growth in Russia was driven by the introduction of Mountain Dew and continued growth of Aqua Minerale, our water product, and Fiesta, our value brand beverage.

Our reported worldwide physical case volume grew 3% in 2000, with the 53rd week contributing approximately 2 percentage points of the growth. Worldwide constant territory volume grew 1% in 2000 with flat volume growth from our U.S. operations and 7% growth from our operations outside the United States. In the U.S., volume results reflected growth in our cold drink segment and the favorable impact of the launch of Sierra Mist in the fourth quarter of 2000, offset by declines in our take-home business. Our cold drink trends reflected our successful placement of additional cold drink equipment in the United States. Take-home volume remained lower for the year reflecting the effect of our price increases in that segment. Our volume growth outside the U.S. was led by Russia where we have reestablished brand Pepsi, introduced Fiesta, and continued to increase distribution of Aqua Minerale. Partially offsetting the growth in Russia were volume declines in Canada resulting from significant take-home price increases in that country.

Net Revenues

Reported net revenues were $8,443 million in 2001, representing a 6% increase over the prior year, including an approximate 1 percentage point negative impact from the 53rd week in 2000. On a constant territory basis, net revenues increased by 6%, reflecting 3% volume growth and 3% growth in net revenue per case. Constant territory U.S. net revenues grew 6% consisting of 5% growth in net revenue per case and volume growth of more than 1%. U.S. net revenue per case results reflect higher pricing, primarily in foodstores, and an increased mix of higher-revenue cold drink volume from new product innovation and double-digit Aquafina growth. Constant territory net revenues outside the U.S. grew 7%, reflecting volume growth of 10%, offset by declines in net revenue per case of 3%. Excluding the negative impact from currency translations, net revenue per case growth was flat outside the U.S. and increased 4% worldwide.

Reported net revenues were $7,982 million in 2000, a 6% increase over the prior year, with the 53rd week contributing approximately 2 percentage points of the growth. On a constant territory basis, worldwide net revenues grew more than 4%, driven by a 1% volume increase and a 3% increase in net revenue per case. Constant territory net revenue per case growth was driven by the U.S., which grew 6%, reflecting higher pricing, particularly in our take-home segment, and an increased mix of higher-revenue cold drink volume. These results were partially offset by account level investment spending aimed at sustainable Aquafina and cold drink inventory gains in the marketplace. Outside the U.S., constant territory net revenues were down 1%, reflecting a 7% increase in volume, offset by an 8% decrease in net revenue per case. Excluding the negative impact from currency translations, net revenue per case decreased 1% outside the U.S. and increased 4% worldwide.

Cost of Sales

Cost of sales increased $175 million, or 4% in 2001, including an approximate 2 percentage point favorable impact from the 53rd week in 2000. On a constant territory basis, cost of sales increased 5% driven by a 3% increase in volume and a more than 1% increase in cost of sales per case. The increase in cost of sales per case reflects higher U.S. concentrate costs and mix shifts into higher cost packages and products, offset by country mix and favorable currency translations.

Cost of sales increased $109 million, or 3% in 2000, with the 53rd week contributing approximately 2 percentage points of the growth. On a per case basis, cost of sales was essentially flat in 2000. Included in cost of sales in 2000 were the favorable impacts from the change in our estimated useful lives of manufacturing assets, which totaled $34 million in 2000 and an approximate 1 percentage point favorable impact from currency translations. Excluding the effects of the change in asset lives and currency translations, cost of sales on a per case basis was more than 1% higher, as higher U.S. concentrate costs were partially offset by favorable packaging and sweetener costs, favorable country mix, and efficiencies in production.

Selling, Delivery and Administrative Expenses

Selling, delivery and administrative expenses grew $199 million, or 7%, over the comparable period in 2000, including an approximate 1 percentage point favorable impact from the 53rd week in 2000. Approximately half of the increase came from higher selling and delivery costs, specifically our continued investments in our U.S. and Canadian cold drink strategy including people, routes and equipment. Also contributing to the growth in selling, delivery and administrative expenses are higher advertising and marketing costs and higher costs associated with investments in our information technology systems.

Selling, delivery and administrative expenses increased $173 million, or 6% in 2000, with the 53rd week contributing approximately 1 percentage point of the growth. Included in selling, delivery and administrative expenses are the favorable impacts from the change in estimated useful lives of

certain selling and delivery assets, which lowered depreciation expense by $35 million, and currency translations, which lowered selling, delivery and administrative expense growth by approximately 1 percentage point in 2000. Excluding the effects of the change in asset lives, currency translations and the inclusion of the 53rd week, selling, delivery and administrative expenses were approximately 7% higher in 2000. Driving this increase were higher selling and delivery costs primarily reflecting our significant investment in our U.S. cold drink infrastructure that began in 1999 and continued through 2000. In addition, higher performance-related compensation costs contributed to the cost growth. Growth in administrative costs associated with the company matching contribution for our new 401(k) plan in 2000 was offset by a one-time, $16 million compensation charge in 1999.

Interest Expense

Fiscal year 2001 interest expense was $4 million lower than in 2000 due to a lower effective interest rate on our debt, which resulted from decreasing market interest rates in 2001. Fiscal year 2000 interest expense was $4 million lower than 1999 reflecting lower external debt outside the U.S.

Interest Income

Fiscal year 2001 interest income was $7 million higher than 2000 while 2000 interest income was $36 million higher than 1999. The increase in interest income for both years primarily reflects additional loans to PBG, which were used by PBG to pay for interest, taxes and share repurchases.

Minority Interest

PBG has a direct minority ownership in one of our subsidiaries. Accordingly, our Consolidated Financial Statements reflect PBG's share of consolidated net income as minority interest in our Consolidated Statements of Operations. The growth in minority interest expense over the last three years is due to higher earnings by our subsidiary over the same periods.

Income Tax Expense Before Rate Change

Bottling LLC is a limited liability company, taxable as a partnership for U.S. tax purposes and, as such, generally pays no U.S. federal or state income taxes. The federal and state distributable share of income, deductions and credits of Bottling LLC are allocated to Bottling LLC's owners based on percentage ownership. However, certain domestic and foreign affiliates pay income taxes in their respective jurisdictions. Such amounts are reflected in our Consolidated Statements of Operations.

Income Tax Rate Change Benefit

During 2001, the Canadian Government enacted legislation reducing federal and certain provincial corporate income tax rates. These rate changes reduced deferred tax liabilities associated with our operations in Canada, and resulted in one-time gains totaling $25 million in 2001.

Bottling Group, LLC
Consolidated Statements of Cash Flows

(dollars in millions)

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

	2001	2000	1999
Cash Flows—Operations			
Net income	$ 587	$ 471	$ 273
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	379	340	374
Amortization	135	131	131
Non-cash unusual impairment and other charges and credits	—	—	(16)
Other non-cash charges and credits, net	146	145	124
Changes in operating working capital, excluding effects of acquisitions:			
Accounts receivable	(28)	8	(30)
Inventories	(50)	11	3
Prepaid expenses and other current assets	(29)	(102)	3
Accounts payable and other current liabilities	56	22	45
Net change in operating working capital	(51)	(61)	21
Net Cash Provided by Operations	1,196	1,026	907
Cash Flows—Investments			
Capital expenditures	(593)	(515)	(560)
Acquisitions of bottlers	(52)	(26)	(176)
Sales of property, plant and equipment	6	9	22
Notes receivable from PBG, Inc	(310)	(268)	(259)
Other, net	(123)	(52)	(19)
Net Cash Used for Investments	(1,072)	(852)	(992)
Cash Flows—Financing			
Short-term borrowings—three months or less	50	12	(58)
Proceeds from long-term debt	—	—	2,276
Replacement of PepsiCo allocated debt	—	—	(2,300)
Payments of long-term debt	—	(9)	(90)
(Distributions to)/contributions from owners	(223)	(45)	416
Net Cash (Used for) Provided by Financing	(173)	(42)	244
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(7)	(4)	(5)
Net (Decrease) Increase in Cash and Cash Equivalents	(56)	128	154
Cash and Cash Equivalents—Beginning of Year	318	190	36
Cash and Cash Equivalents—End of Year	$ 262	$ 318	$ 190

See accompanying notes to Consolidated Financial Statements.

Bottling Group, LLC
Consolidated Balance Sheets

(in millions)

December 29, 2001 and December 30, 2000

	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	$ 262	$ 318
Accounts receivable, less allowance of $42 in 2001 and 2000	823	796
Inventories	331	281
Prepaid expenses and other current assets	115	154
Total Current Assets	1,531	1,549
Property, plant and equipment, net	2,543	2,358
Intangible assets, net	3,684	3,694
Notes receivable from PBG, Inc	837	527
Other assets	82	100
Total Assets	$8,677	$8,228
LIABILITIES AND OWNERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$ 977	$ 915
Short-term borrowings	77	26
Total Current Liabilities	1,054	941
Long-term debt	2,299	2,286
Other liabilities	406	346
Deferred income taxes	168	187
Minority interest	154	147
Total Liabilities	4,081	3,907
Owners' Equity		
Owners' net investment	5,012	4,574
Accumulated other comprehensive loss	(416)	(253)
Total Owners' Equity	4,596	4,321
Total Liabilities and Owners' Equity	$8,677	$8,228

See accompanying notes to Consolidated Financial Statements.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

Liquidity Prior to our Separation from PepsiCo and PBG's Initial Public Offering

We financed our capital investments and acquisitions through cash flow from operations and advances from PepsiCo prior to our separation from PepsiCo and PBG's initial public offering. Under PepsiCo's centralized cash management system, PepsiCo deposited sufficient cash in our bank accounts to meet our daily obligations, and withdrew excess funds from those accounts. These transactions are included in (distributions to)/contributions from owners in our Consolidated Statements of Cash Flows.

Liquidity After PBG's Initial Public Offering

Subsequent to PBG's initial public offering, we have financed our capital investments and acquisitions primarily through cash flow from operations. We believe that our future cash flow from operations and borrowing capacity will be sufficient to fund capital expenditures, acquisitions, dividends and working capital requirements.

Financing Transactions

On February 9, 1999, $1.3 billion of 5 5/8% senior notes and $1.0 billion of 5 3/8% senior notes which are guaranteed by PepsiCo. During the second quarter of 1999, we executed an interest rate swap converting 4% of our fixed-rate debt to floating-rate debt.

The proceeds from the above financing transactions were used to repay obligations to PepsiCo and fund acquisitions.

Capital Expenditures

We have incurred and will continue to incur capital costs to maintain and grow our infrastructure, including acquisitions and investments in developing market opportunities.

- Our business requires substantial infrastructure investments to maintain our existing level of operations and to fund investments targeted at growing our business. Capital infrastructure expenditures totaled $593 million, $515 million and $560 million during 2001, 2000 and 1999, respectively. We believe that capital infrastructure spending will continue to be significant, driven by our investments in the cold drink segment and capacity needs.
- We intend to continue to pursue acquisitions of independent PepsiCo bottlers in the U.S. and Canada, particularly in territories contiguous to our own, where they create shareholder value. These acquisitions will enable us to provide better service to our large retail customers, as well as to reduce costs through economies of scale. We also plan to evaluate international acquisition opportunities as they become available. Cash spending on acquisitions was $52 million, $26 million and $176 million in 2001, 2000 and 1999, respectively. In addition, PBG contributed $74 million of net assets relating to the acquisition of Pepsi-Cola Bottling of Northern California to us in 2001.

Cash Flows

Fiscal 2001 Compared to Fiscal 2000

Net cash provided by operating activities increased $170 million to $1,196 million in 2001, driven by strong EBITDA growth and the timing of casualty insurance payments, partially offset by higher working capital due to growth in our business.

Net cash used for investments increased by $220 million from $852 million in 2000 to $1,072 million in 2001, driven by increased loans made to PBG, increased capital expenditures and acquisition spending.

Net cash used for financing increased by $131 million to $173 million in 2001. This increase is primarily due to increased distributions to the owners.

Fiscal 2000 Compared to Fiscal 1999

Net cash provided by operating activities increased $119 million to $1,026 million in 2000 driven by strong EBITDA growth partially offset by the timing of casualty insurance payments in 2000, which significantly contributed to our unfavorable change in operating working capital.

Net cash used by investments decreased by $140 million from $992 million in 1999 to $852 million in 2000, primarily due to acquisition spending, which was $150 million lower in 2000. Capital expenditures decreased by $45 million, or 8%, as increases in the U.S. associated with our cold drink strategy were offset by decreases outside the United States.

Net cash (used for) provided by financing decreased from a source of cash of $244 million in 1999 to a use of cash of $42 million in 2000. The decrease reflects $45 million of owners' distributions in 2000 as compared to owner contributions of $461 million in 1999, which were used in 1999 to fund acquisitions and pay down debt.

MARKET RISKS AND CAUTIONARY STATEMENTS

Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, the financial position of the company routinely is subject to a variety of risks. These risks include the risk associated with the price of commodities purchased and used in our business, interest rate on outstanding debt and currency movements of non-U.S. dollar denominated assets and liabilities. We are also subject to the risks associated with the business environment in which we operate, including the collectibility of accounts receivable. We regularly assess all of these risks and have policies and procedures in place to protect against the adverse effects of these exposures.

Our objective in managing our exposure to fluctuations in commodity prices, interest rates, and foreign currency exchange rates is to minimize the volatility of earnings and cash flows associated with changes in the applicable rates and prices. To achieve this objective, we primarily enter into commodity forward contracts, commodity futures and options on futures contracts and interest rate swaps. Our company policy prohibits the use of derivative instruments for trading or speculative purposes, and we have procedures in place to monitor and control their use.

A sensitivity analysis has been prepared to determine the effects that market risk exposures may have on the fair values of our debt and other financial instruments. To perform the sensitivity analysis, we assessed the risk of loss in fair values from the hypothetical changes in commodity prices, interest rates, and foreign currency exchange rates on market-sensitive instruments. Information provided by this sensitivity analysis does not necessarily represent the actual changes in fair value that we would incur under normal market conditions because, due to practical limitations, all variables other than the specific market risk factor were held constant. In addition, the results of the analysis are constrained by the fact that certain items are specifically excluded from the analysis, while the financial instruments that relate to the financing or hedging of those items are included. As a result, the reported changes in the values of some financial instruments that affect the results of the sensitivity analysis are not matched with the offsetting changes in the values of the items that those instruments are designed to finance or hedge.

The results of the sensitivity analysis at December 29, 2001 are as follows:

Commodity Price Risk

We are subject to market risks with respect to commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We use futures contracts and options on futures in the normal course of business to hedge

anticipated purchases of aluminum and fuel used in our operations. With respect to commodity price risk, we currently have various contracts outstanding for aluminum and fuel oil purchases in 2002, which establish our purchase price within defined ranges. These contracts have notional amounts of $573 million and $557 million at December 29, 2001 and December 30, 2000, respectively. These notional amounts do not represent amounts exchanged by the parties and thus are not a measure of our exposure; rather, they are used as a basis to calculate the amounts due under the agreements. We estimate that a 10% decrease in commodity prices with all other variables held constant would have resulted in a decrease in the fair value of our financial instruments of $15 million and $18 million at December 29, 2001 and December 30, 2000, respectively.

Interest Rate Risk

The fair value of our fixed-rate long-term debt is sensitive to changes in interest rates. Interest rate changes would result in gains or losses in the fair market value of our debt representing differences between market interest rates and the fixed rate on the debt. With respect to this market risk, we currently have an interest rate swap converting 4% of our fixed-rate debt to floating-rate debt. This interest rate swap has a notional value of $100 million at December 29, 2001 and December 30, 2000. We estimate that a 10% decrease in interest rates with all other variables held constant would have resulted in a net increase in the fair value of our financial instruments, both our fixed rate debt and our interest rate swap, of $52 million and $66 million at December 29, 2001 and December 30, 2000, respectively.

Foreign Currency Exchange Rate Risk

In 2001, approximately 15% of our net revenues came from Canada, Spain, Greece and Russia. Social, economic, and political conditions in these international markets may adversely affect our results of operations, cash flows, and financial condition. The overall risks to our international businesses include changes in foreign governmental policies, and other political or economic developments. These developments may lead to new product pricing, tax or other policies, and monetary fluctuations that may adversely impact our business. In addition, our results of operations and the value of the foreign assets are affected by fluctuations in foreign currency exchange rates.

As currency exchange rates change, translation of the statements of operations of our businesses outside the U.S. into U.S. dollars affects year-over-year comparability. We have not hedged currency risks because cash flows from international operations have generally been reinvested locally, nor historically have we entered into hedges to minimize the volatility of reported earnings. We estimate that a 10% change in foreign exchange rates with all other variables held constant would have affected reported income before income taxes by less than $30 million in 2001 and 2000.

Foreign currency gains and losses reflect translation gains and losses arising from the re-measurement into U.S. dollars of the net monetary assets of businesses in highly inflationary countries and transaction gains and losses. Russia is considered a highly inflationary economy for accounting purposes.

Euro

We have successfully executed our plans to address the issues raised by the Euro currency conversion. These issues include, among others, the need to adapt computer and financial systems, business processes and equipment, such as vending machines, to accommodate Euro-denominated transactions and the impact of one common currency on cross-border pricing. We have experienced no business interruption as a result of the issuance and circulation of Euro-denominated bills and coins beginning January 1, 2002. Our financial systems and processes have been successfully converted to accommodate the Euro. Due to numerous uncertainties, we cannot reasonably estimate the long-term effects one common currency may have on pricing, costs and the resulting impact, if any, on the financial condition or results of operations.

Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this annual report on Form 10-K may constitute forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on currently available competitive, financial and economic data and Bottling Group, LLC's operating plans. These statements involve a number of risks, uncertainties and other factors that could cause actual results to be materially different. Among the events and uncertainties that could adversely affect future periods are lower-than-expected net pricing resulting from marketplace competition, material changes from expectations in the cost of raw materials and ingredients, an inability to achieve the expected timing for returns on cold drink equipment and related infrastructure expenditures, material changes in expected levels of marketing support payments from PepsiCo, an inability to meet projections for performance in newly acquired territories, and unfavorable interest rate and currency fluctuations.

Bottling Group, LLC
Consolidated Statements of Changes in Owners' Equity

(in millions)

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

	Owners' Net Investment	Accumulated Other Comprehensive Loss	Total	Comprehensive Income/(Loss)
Balance at December 26, 1998	$ 3,521	$ (238)	$ 3,283	
Comprehensive income:				
Net income	273	—	273	$ 273
Currency translation adjustment	—	(3)	(3)	(3)
Minimum pension liability adjustment	—	19	19	19
Total comprehensive income				$ 289
Owner contributions	356	—	356	
Balance at December 25, 1999	4,150	(222)	3,928	
Comprehensive income:				
Net income	471	—	471	$ 471
Currency translation adjustment	—	(31)	(31)	(31)
Total comprehensive income				$ 440
Cash distributions to owners	(45)	—	(45)	
Non-cash distribution to owner	(2)	—	(2)	
Balance at December 30, 2000	4,574	(253)	4,321	
Comprehensive income:				
Net income	587	—	587	$ 587
Currency translation adjustment	—	(48)	(48)	(48)
Minimum pension liability adjustment	—	(96)	(96)	(96)
FAS 133 adjustment	—	(19)	(19)	(19)
Total comprehensive income				$ 424
Cash distributions to owners	(223)	—	(223)	
Non-cash contribution from owner	74	—	74	
Balance at December 29, 2001	$5,012	$ (416)	$4,596	

See accompanying notes to Consolidated Financial Statements.

Note 1—Basis of Presentation

Bottling Group, LLC (collectively referred to as "Bottling LLC," "we," "our" and "us") is the principal operating subsidiary of The Pepsi Bottling Group, Inc. ("PBG") and consists of substantially all of the operations and assets of PBG. Bottling LLC, which is consolidated by PBG, consists of bottling operations located in the United States, Canada, Spain, Greece and Russia. For the periods presented prior to our formation, we were an operating unit of PepsiCo, Inc. ("PepsiCo").

PBG was incorporated in Delaware in January 1999 and, prior to its formation, PBG was an operating unit of PepsiCo. PBG's initial public offering consisted of 100 million shares of common stock sold to the public on March 31, 1999, equivalent to 65% of its outstanding common stock, leaving PepsiCo the owner of the remaining 35% of outstanding common stock. As a result of PBG's share repurchase program, PepsiCo's ownership has increased to 37.7% of the outstanding common stock and 100% of the outstanding Class B common stock, together representing 42.8% of the voting power of all classes of our voting stock at December 29, 2001.

In addition, in conjunction with its initial public offering, PBG and PepsiCo contributed bottling businesses and assets used in the bottling businesses to Bottling LLC. As a result of the contribution of these assets, PBG owns 93% of Bottling LLC and PepsiCo owns the remaining 7%.

The accompanying Consolidated Financial Statements include information that has been presented on a "carve-out" basis for the periods prior to PBG's initial public offering and our formation. This information includes the historical results of operations and assets and liabilities directly related to Bottling LLC, and has been prepared from PepsiCo's historical accounting records. Certain estimates, assumptions and allocations were made in determining such financial statement information. Therefore, these Consolidated Financial Statements may not necessarily be indicative of the results of operations, financial position or cash flows that would have existed had we been a separate, independent company from the first day of fiscal year 1999.

On March 8, 1999, PBG issued $1 billion of 7% senior notes due 2029, which are guaranteed by us. We also guarantee that to the extent there is available cash, we will distribute pro rata to all owners sufficient cash such that aggregate cash distributed to PBG will enable PBG to pay its taxes and make interest payments on the $1 billion 7% senior notes due 2029. During 2001 and 2000, we made cash distributions to our owners totaling $223 million and $45 million, respectively. Any amounts in excess of taxes and interest payments were used by PBG to repay loans to us.

Note 2—Summary of Significant Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

New Accounting Standards During 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") 141, "Business Combinations," which requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001, and SFAS 142, "Goodwill and Other Intangible Assets," which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment. Effective the first day of fiscal year 2002, we will no longer amortize goodwill and certain franchise rights, but will evaluate them for impairment annually. We have completed the initial impairment review required by SFAS 142 and have determined that our intangible assets are not impaired. The adoption of SFAS 142 will reduce our fiscal year 2002 amortization expense by approximately $128 million.

In addition, during 2001 the FASB also issued SFAS 143, "Accounting for Asset Retirement Obligations" and SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It requires that we recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS 144 superseded SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." and Accounting Principles Board Opinion 30, "Reporting the Results of Operations – Reporting the Effects of a Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 establishes a single accounting model for the impairment of long-lived assets and broadens the presentation of discontinued operations to include more disposal transactions. SFAS 143 is effective for fiscal year 2003 and SFAS 144 is effective for fiscal year 2002 and we do not anticipate that the adoption of these statements will have a material impact on our Consolidated Financial Statements.

During 2000 and 2001, the Emerging Issues Task Force ("EITF") addressed various issues related to the income statement classification of certain promotional payments. In May 2000, the EITF reached a consensus on Issue 00-14, "Accounting for Certain Sales Incentives," addressing the recognition and income statement classification of various sales incentives. Among its requirements, the consensus will require the costs related to consumer coupons currently classified as marketing costs to be classified as a reduction of revenue. In January 2001, the EITF reached a consensus on Issue 00-22, "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." EITF 00-22 requires that certain volume-based cash rebates to customers currently recognized as marketing costs be classified as a reduction of revenue. In April 2001, the EITF reached a consensus on Issue 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." EITF 00-25 addresses the income statement classification of consideration, other than that directly addressed in EITF 00-14, from a vendor to a reseller or another party that purchases the vendor's products. In November 2001, the EITF codified Issues 00-14, 00-22 and 00-25 as Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." EITF 00-22 was effective for the first quarter of 2001 and was not material to our Consolidated Financial Statements. The remainder of EITF 01-9 is effective for 2002 and we do not anticipate that the adoption will have a material impact on our Consolidated Financial Statements.

Our Consolidated Financial Statements reflect the implementation of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, on the first day of fiscal year 2001. SFAS 133, which was issued in 1998, establishes accounting and reporting standards for hedging activities and derivative instruments, including certain derivative instruments embedded in other contracts, which are collectively referred to as derivatives. It requires that an entity recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measure those instruments at fair value.

Basis of Consolidation The accounts of all of our wholly and majority-owned subsidiaries are included in the accompanying Consolidated Financial Statements. We have eliminated intercompany accounts and transactions in consolidation.

Fiscal Year Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. Fiscal years 2001 and 1999 consisted of 52 weeks while fiscal year 2000 consisted of 53 weeks.

Revenue Recognition We recognize revenue when our products are delivered to customers. Sales terms do not allow a right of return unless product freshness dating has expired. Reserves for returned product were $4 million, $3 million and $2 million at fiscal years ended 2001, 2000 and 1999, respectively.

Advertising and Marketing Costs We are involved in a variety of programs to promote our products. We include advertising and marketing costs in selling, delivery and administrative expenses and expense such costs in the year incurred. Advertising and marketing costs were $389 million, $350 million and $342 million in 2001, 2000 and 1999, respectively.

Bottler Incentives PepsiCo and other brand owners, at their sole discretion, provide us with various forms of marketing support. This marketing support is intended to cover a variety of programs and initiatives, including direct marketplace support, capital equipment funding and shared media, and advertising support. Based on the objective of the programs and initiatives, we record marketing support as an adjustment to net revenues or as a reduction of selling, delivery and administrative expenses. Direct marketplace support is primarily funding by PepsiCo and other brand owners of sales discounts and similar programs and is recorded as an adjustment to net revenues. Capital equipment funding is designed to support the purchase and placement of marketing equipment and is recorded as a reduction of selling, delivery and administrative expenses. Shared media and advertising support is recorded as a reduction to advertising and marketing expense within selling, delivery and administrative expenses. There are no conditions or other requirements that could result in a repayment of marketing support received.

The total bottler incentives we received from PepsiCo and other brand owners were $598 million, $566 million and $563 million for 2001, 2000 and 1999, respectively. Of these amounts, we recorded $293 million, $277 million and $263 million for 2001, 2000 and 1999, respectively, in net revenues, and the remainder as a reduction of selling, delivery and administrative expenses. The amount of our bottler incentives received from PepsiCo was more than 90% of our bottler incentives in each of the three years, with the balance received from the other brand owners.

Shipping and Handling Costs We record shipping and handling costs within selling, delivery and administrative expenses. Such costs totaled $947 million, $925 million and $915 million in 2001, 2000 and 1999, respectively.

Foreign Currency Gains and Losses We translate the balance sheets of our foreign subsidiaries that do not operate in highly inflationary economies at the exchange rates in effect at the balance sheet date, while we translate the statements of operations at the average rates of exchange during the year. The resulting translation adjustments of our foreign subsidiaries are recorded directly to accumulated other comprehensive loss. Foreign currency gains and losses reflect translation gains and losses arising from the re-measurement into U.S. dollars of the net monetary assets of businesses in highly inflationary countries and transaction gains and losses. Russia is considered a highly inflationary economy for accounting purposes.

Income Taxes We are a limited liability company, taxable as a partnership for U.S. tax purposes and, as such, generally will pay no U.S. federal or state income taxes. Our federal and state distributable share of income, deductions and credits will be allocated to our owners based on their percentage of ownership. However, certain domestic and foreign affiliates pay taxes in their respective jurisdictions and record related deferred income tax assets and liabilities. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax purposes. In accordance with SFAS 109, "Accounting for Income Taxes," these deferred taxes are measured by applying currently enacted tax laws. With the exception of certain of our subsidiaries for which we have recorded deferred taxes in our Consolidated Financial Statements, deferred taxes associated with our U.S. operations are recorded directly by our owners.

Cash Equivalents Cash equivalents represent funds we have temporarily invested with original maturities not exceeding three months.

Allowance for Doubtful Accounts We determine our allowance for doubtful accounts based on an evaluation of the aging of our receivable portfolio. Our reserve contemplates our historical loss rate on receivables and the economic environment in which we operate.

Inventories We value our inventories at the lower of cost computed on the first-in, first-out method or net realizable value.

Property, Plant and Equipment We state property, plant and equipment ("PP&E") at cost, except for PP&E that has been impaired, for which we write down the carrying amount to estimated fair-market value, which then becomes the new cost basis.

Intangible Assets Identifiable intangible assets arise principally from the allocation of the purchase price of businesses acquired, and consist primarily of territorial franchise rights. Our franchise rights are typically perpetual in duration, subject to compliance with the underlying franchise agreement. We assign amounts to such identifiable intangibles based on their estimated fair value at the date of acquisition. Goodwill represents the residual purchase price after allocation to all identifiable net assets. Identifiable intangible assets are evaluated at the date of acquisition and amortized on a straight-line basis over their estimated useful lives, which in most cases is from 20-40 years the maximum period permitted by GAAP.

Recoverability of Long-Lived Assets We review all long-lived assets, including intangible assets, when facts and circumstances indicate that the carrying value of the asset may not be recoverable. When necessary, we write down an impaired asset to its estimated fair value based on the best information available. Estimated fair value is generally based on either appraised value or measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows, which are discounted based on our weighted-average cost of capital. Accordingly, actual results could vary significantly from such estimates.

Minority Interest PBG has a direct minority ownership in one of our subsidiaries. PBG's share of combined income or loss and assets and liabilities in the subsidiary is accounted for as minority interest.

Financial Instruments and Risk Management We use derivative instruments to hedge against the risk of adverse movements in the price of certain commodities and fuel used in our operations. Our use of derivative instruments is limited to interest rate swaps, forward contracts, futures and options on futures contracts. Our corporate policy prohibits the use of derivative instruments for trading or speculative purposes, and we have procedures in place to monitor and control their use.

All derivative instruments are recorded at fair value as either assets or liabilities in our Consolidated Balance Sheets. Derivative instruments are designated and accounted for as either a hedge of a recognized asset or liability ("fair value hedge") or a hedge of a forecasted transaction ("cash flow hedge"). For a fair value hedge, both the effective and ineffective portions of the change in fair value of the derivative instrument, along with an adjustment to the carrying amount of the hedged item for fair value changes attributable to the hedged risk, are recognized in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument that are highly effective are deferred in accumulated other comprehensive loss until the underlying hedged item is recognized in earnings. The ineffective portion of fair value changes on qualifying hedges is recognized in earnings immediately and is recorded consistent with the expense classification of the underlying hedged item. If a fair value or cash flow hedge were to cease to qualify for hedge accounting or be terminated, it would continue to be carried on the balance sheet at fair value until settled but hedge accounting would be discontinued prospectively. If a forecasted transaction were no longer probable of occurring, amounts previously deferred in accumulated other comprehensive loss would be recognized immediately in earnings.

On occasion, we may enter into a derivative instrument for which hedge accounting is not required because it is entered into to offset changes in the fair value of an underlying transaction recognized in earnings ("natural hedge"). These instruments are reflected in the Consolidated Balance Sheets at fair value with changes in fair value recognized in earnings.

Stock-Based Employee Compensation We measure stock-based compensation expense in accordance with Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees," and its related interpretations. Accordingly, compensation expense for PBG stock options granted to our employees is measured as the excess of the quoted market price of common stock at the grant date over the amount the employee must pay for the stock. Our policy is to grant PBG stock options at fair value on the date of grant.

Commitments and Contingencies We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Liabilities related to commitments and contingencies are recognized when a loss is probable and reasonably estimable.

Reclassifications Certain reclassifications were made in our Consolidated Financial Statements to 2000 and 1999 amounts to conform with the 2001 presentation.

Note 3—Comparability of Results

Asset Lives

At the beginning of fiscal year 2000, we changed the estimated useful lives of certain categories of assets primarily to reflect the success of our preventive maintenance programs in extending the useful lives of these assets. The changes, which are detailed in the table below, lowered total depreciation cost by approximately $69 million. In 2001 we are utilizing the same asset lives as in 2000.

(in years)

	Estimated Useful Lives	
	2000	1999
Manufacturing equipment	15	10
Heavy fleet	10	8
Fountain dispensing equipment	7	5
Small specialty coolers and specialty marketing equipment	3	5 to 7

Fiscal Year

Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. Fiscal years 2001 and 1999 consisted of 52 weeks while fiscal year 2000 consisted of 53 weeks. The extra week in 2000 contributed approximately $12 million of additional net income to our 2000 operating results.

PBG's Initial Public Offering

For the period prior to PBG's initial public offering and the formation of Bottling LLC, we prepared our Consolidated Financial Statements as a "carve-out" from the financial statements of PepsiCo using the historical results of operations and assets and liabilities of our business. Certain costs reflected in the Consolidated Financial Statements may not necessarily be indicative of the costs that we would have incurred had we operated as an independent, stand-alone entity from the first day of fiscal year 1999. These costs include an allocation of PepsiCo's corporate overhead and interest expense:

- We included overhead related to PepsiCo's corporate administrative functions based on a specific identification of PepsiCo's administrative costs relating to the bottling operations and, to the extent that such identification was not practicable, based upon the percentage of our revenues to PepsiCo's consolidated net revenues. These costs are included in selling, delivery and administrative expenses in our Consolidated Statements of Operations.

- We allocated $2.3 billion of PepsiCo's debt to our business and charged interest expense on this debt using PepsiCo's weighted-average interest rate. Once we issued $2.3 billion of third-party debt in the first quarter of 1999, our actual interest rates were used to determine interest expense for the remainder of the year.

The amounts of the historical allocations described above are as follows:

	1999
Corporate overhead expense	$ 3
Interest expense	$ 16
PepsiCo's weighted-average interest rate	5.8%

Note 4—Unusual Impairment and Other Charges and Credits

Our operating results were affected by the following unusual charges and credits:

	1999
Non-cash compensation charge	$ 45
Vacation policy change	(53)
Asset impairment and restructuring charges	(8)
	$ (16)

- Non-cash Compensation Charge

  In connection with the completion of PBG's initial public offering, PepsiCo vested substantially all non-vested PepsiCo stock options held by our employees. As a result, we incurred a $45 million non-cash compensation charge in the second quarter of 1999, equal to the difference between the market price of the PepsiCo capital stock and the exercise price of these options at the vesting date.

- Vacation Policy Change

  As a result of changes to our employee benefit and compensation plans in 1999, employees now earn vacation time evenly throughout the year based upon service rendered. Previously, employees were fully vested at the beginning of each year. As a result of this change, we reversed an accrual of $53 million into income in 1999.

- Asset Impairment and Restructuring Charges

  In the fourth quarter of 1999, $8 million of the remaining restructuring reserve recorded in 1998, relating to an asset impairment and restructuring in our Russian operations, was reversed into income. The reversal was necessitated as actual costs incurred to renegotiate manufacturing and leasing contracts in Russia and to reduce the number of employees were less than the amounts originally estimated.

Note 5—Inventories

	2001	2000
Raw materials and supplies	$ 117	$ 107
Finished goods	214	174
	$ 331	$ 281

Note 6—Property, Plant and Equipment, net

	2001	2000
Land	$ 145	$ 145
Buildings and improvements	925	903
Manufacturing and distribution equipment	2,308	2,169
Marketing equipment	1,846	1,745
Other	121	106
	5,345	5,068
Accumulated depreciation	(2,802)	(2,710)
	$ 2,543	$ 2,358

We calculate depreciation on a straight-line basis over the estimated lives of the assets as follows:

Buildings and improvements	20-33 years
Production equipment	15 years
Distribution equipment	5-10 years
Marketing equipment	3-7 years

Note 7—Intangible Assets, net

	2001	2000
Franchise rights and other identifiable intangibles	$ 3,636	$ 3,557
Goodwill	1,574	1,591
	5,210	5,148
Accumulated amortization	(1,526)	(1,454)
	$ 3,684	$ 3,694

Note 8—Notes Receivable from PBG

We have loaned PBG $310 million and $268 million during 2001 and 2000, respectively, net of repayments. These loans were made through a series of 5-year notes, with interest rates ranging from 2.4% and 8.0%. The proceeds were used by PBG to pay for interest, taxes, dividends, share repurchases and in 2001, for acquisitions. Accrued interest receivable from PBG on these notes totaled $44 million and $26 million at December 29, 2001 and December 30, 2000, respectively, and is recorded within prepaid expenses and other current assets in our Consolidated Balance Sheets.

Note 9—Accounts Payable and Other Current Liabilities

	2001	2000
Accounts payable	$ 362	$ 344
Trade incentives	205	206
Accrued compensation and benefits	141	147
Accrued interest	47	48
Accounts payable to PepsiCo	17	—
Other current liabilities	205	170
	$ 977	$ 915

Note 10—Short-term Borrowings and Long-term Debt

	2001	2000
Short-term borrowings		
Current maturities of long-term debt	$ 3	$ 1
Other short-term borrowings	74	25
	$ 77	$ 26
Long-term debt		
5 5/8% senior notes due 2009	$1,300	$1,300
5 3/8% senior notes due 2004	1,000	1,000
Other	18	6
	2,318	2,306
Less: Unamortized discount	16	19
Current maturities of long-term debt	3	1
	$2,299	$2,286

Maturities of long-term debt as of December 29, 2001 are 2002: $3 million, 2003: $3 million, 2004: $1,008 million, 2005: $0, 2006: $0 and thereafter, $1,304 million.

The $1.3 billion of 5 5/8% senior notes and the $1.0 billion of 5 3/8% senior notes were issued on February 9, 1999 and are guaranteed by PepsiCo. During the second quarter of 1999 we executed an interest rate swap converting 4% of our fixed-rate debt to floating-rate debt.

We allocated $2.3 billion of PepsiCo's long-term debt in our financial statements prior to issuing the senior notes referred to above. Our interest expense includes the related allocated interest expense of $16 million in 1999, and is based on PepsiCo's weighted-average interest rate of 5.8% in 1999.

We have available short-term bank credit lines of approximately $177 million and $135 million at December 29, 2001 and December 30, 2000, respectively. These lines are used to support general operating needs of our business outside the United States. The weighted-average interest rate for these lines of credit outstanding at December 29, 2001 and December 30, 2000 was 4.3% and 8.9%, respectively.

On March 8, 1999, PBG issued $1 billion of 7% senior notes due 2029, which are guaranteed by us.

Amounts paid to third parties for interest were $121 million, $131 million and $74 million in 2001, 2000 and 1999, respectively. In 1999, allocated interest expense was deemed to have been paid to PepsiCo, in cash, in the period in which the cost was incurred.

Note 11—Leases

We have noncancellable commitments under both capital and long-term operating leases. Capital and operating lease commitments expire at various dates through 2021. Most leases require payment of related executory costs, which include property taxes, maintenance and insurance.

Our future minimum commitments under noncancellable leases are set forth below:

	Commitments	
	Capital	Operating
2002	$—	$ 22
2003	—	20
2004	—	17
2005	—	16
2006	—	14
Later years	3	82
	$ 3	$171

At December 29, 2001, the present value of minimum payments under capital leases was $1 million, after deducting $2 million for imputed interest. Our rental expense was $40 million, $42 million and $55 million for 2001, 2000 and 1999, respectively.

Note 12—Financial Instruments and Risk Management

These Consolidated Financial Statements reflect the implementation of SFAS 133, as amended by SFAS 138, on the first day of fiscal year 2001. In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for hedging activities and derivative instruments, including certain derivative instruments embedded in other contracts, which are collectively referred to as derivatives. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. In June 2000, the FASB issued SFAS 138, amending the accounting and reporting standards of SFAS 133. Prior to the adoption of SFAS 133, there were no deferred gains or losses from our hedging activities recorded in our Consolidated Financial Statements. The adoption of these statements resulted in the recording of a deferred gain in our Consolidated Balance Sheets, which was recorded as an increase to current assets of $4 million and a reduction of accumulated other comprehensive loss of $4 million. Furthermore, the adoption had no impact on our Consolidated Statement of Operations.

As of December 29, 2001, our use of derivative instruments is limited to an interest rate swap, forward contracts, futures and options on futures contracts. Our corporate policy prohibits the use of derivative instruments for trading or speculative purposes, and we have procedures in place to monitor and control their use.

Cash Flow Hedge We are subject to market risk with respect to the cost of commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We use futures contracts and options on futures in the normal course of business to hedge the risk of adverse movements in commodity prices related to anticipated purchases of aluminum and fuel used in our operations. These contracts, which generally range from 1 to 12 months in duration, establish our commodity purchase prices within defined ranges in an attempt to limit our purchase price risk resulting from adverse commodity price movements and are designated as and qualify for cash flow hedge accounting treatment.

In 2001, the amount of deferred losses from our commodity hedging that we recognized into income was $4 million. At December 29, 2001 a $19 million deferred loss remained in accumulated other comprehensive loss in our Consolidated Balance Sheets resulting from our commodity hedges. We anticipate that this loss will be recognized in cost of sales in our Consolidated Statements of Operations over the next 12 months. The ineffective portion of the change in fair value of these contracts was not material to our results of operations in 2001.

Fair Value Hedges We finance a portion of our operations through fixed-rate debt instruments. At December 29, 2001 our debt instruments primarily consisted of $2.3 billion of fixed-rate long-term senior notes, 4% of which we converted to floating rate debt through the use of an interest rate swap with the objective of reducing our overall borrowing costs. This interest rate swap, which expires in 2004, is designated as and qualifies for fair value hedge accounting and is 100% effective in eliminating the interest rate risk inherent in our long-term debt as the notional amount, interest payment, and maturity date of the swap matches the notional amount, interest payment and maturity date of the related debt. Accordingly, any market risk or opportunity associated with this swap is fully offset by the opposite market impact on the related debt. The change in fair value of the interest rate swap was a gain of $7 million in 2001. The fair value change was recorded in interest expense in our Consolidated Statements of Operations and in prepaid expenses and other current assets in our Consolidated Balance Sheets. An offsetting adjustment was recorded in interest expense in our Consolidated Statements of Operations and in long-term debt in our Consolidated Balance Sheets representing the change in fair value in long-term debt.

Equity Derivatives We use equity derivative contracts with financial institutions to hedge a portion of our deferred compensation liability, which is based on PBG's stock price. These prepaid forward contracts for the purchase of PBG common stock are accounted for as natural hedges. The earnings impact from these hedges is classified as selling, delivery and administrative expenses consistent with the expense classification of the underlying hedged item.

Fair Value Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities and short-term debt. The carrying value of these financial assets and liabilities approximates fair value due to the short maturity of our financial assets and liabilities, and since interest rates approximate fair value for short-term debt.

Long-term debt at December 29, 2001 had a carrying value and fair value of $2.3 billion, and at December 30, 2000 had a carrying value and fair value of $2.3 billion and $2.2 billion, respectively.

Note 13—Pension and Postretirement Benefit Plans

Pension Benefits

Our U.S. employees participate in noncontributory defined benefit pension plans, which cover substantially all full-time salaried employees, as well as most hourly employees. Benefits generally are based on years of service and compensation, or stated amounts for each year of service. All of our qualified plans are funded and contributions are made in amounts not less than minimum statutory funding requirements and not more than the maximum amount that can be deducted for U.S. income tax purposes. Our net pension expense for the defined benefit pension plans for our operations outside the U.S. was not significant.

Postretirement Benefits

Our postretirement plans provide medical and life insurance benefits principally to U.S. retirees and their dependents. Employees are eligible for benefits if they meet age and service requirements and qualify for retirement benefits. The plans are not funded and since 1993 have included retiree cost sharing.

	Pension		
Components of net periodic benefit costs:	2001	2000	1999
Service cost	$ 28	$ 27	$ 30
Interest cost	50	49	42
Expected return on plan assets	(60)	(56)	(49)
Amortization of net loss	—	—	4
Amortization of prior service amendments	4	5	5
Net periodic benefit costs	$ 22	$ 25	$ 32

	Postretirement		
Components of net periodic benefit costs:	2001	2000	1999
Service cost	$ 3	$ 3	$ 4
Interest cost	16	14	12
Amortization of net loss	1	1	—
Amortization of prior service amendments	(6)	(6)	(5)
Net periodic benefit costs	$ 14	$ 12	$ 11

We amortize prior service costs on a straight-line basis over the average remaining service period of employees expected to receive benefits.

	Pension		Postretirement	
Changes in the benefit obligation:	2001	2000	2001	2000
Obligation at beginning of year	$ 664	$ 647	$ 212	$ 206
Service cost	28	27	3	3
Interest cost	50	49	16	14
Plan amendments	10	4	—	(10)
Actuarial loss/(gain)	48	(19)	14	11
Benefit payments	(40)	(40)	(17)	(12)
Acquisitions and other	—	(4)	—	—
Obligation at end of year	$ 760	$ 664	$ 228	$ 212

	Pension		Postretirement	
Changes in the fair value of assets:	2001	2000	2001	2000
Fair value at beginning of year	$ 665	$ 597	$ —	$ —
Actual (loss)/gain on plan assets	(117)	96	—	—
Employer contributions	70	16	17	12
Benefit payments	(40)	(40)	(17)	(12)
Acquisitions and other	—	(4)	—	—
Fair value at end of year	$ 578	$ 665	$ —	$ —

Selected information for the plans with accumulated benefit obligations in excess of plan assets:

	Pension		Postretirement	
	2001	2000	2001	2000
Projected benefit obligation	$ 760	$ 31	$228	$212

Accumulated benefit obligation	690	14	228	212
Fair value of plan assets	604	—	—	—

Funded status recognized on the Consolidated Balance Sheets:

	Pension		Postretirement	
	2001	2000	2001	2000
Funded status at end of year	$(182)	$ 1	$(228)	$(212)
Unrecognized prior service cost	36	31	(16)	(21)
Unrecognized loss/(gain)	153	(73)	57	45
Unrecognized transition asset	(1)	(1)	—	—
Fourth quarter employer contributions	26	10	5	7
Net amounts recognized	$ 32	$ (32)	$(182)	$(181)

Net amounts recognized in the Consolidated Balance Sheets:

	Pension		Postretirement	
	2001	2000	2001	2000
Prepaid expenses	$ —	$ 31	$ —	$ —
Other liabilities	(101)	(63)	(182)	(181)
Intangible assets, net	37	—	—	—
Accumulated other comprehensive loss	96	—	—	—
Net amounts recognized	$ 32	$ (32)	$(182)	$(181)

At December 29, 2001, the accumulated benefit obligation of certain PBG pension plans exceeded the fair market value of the plan assets resulting in the recognition of an additional unfunded liability as a minimum balance sheet liability. As a result of this additional liability, an intangible asset of $37 million and an increase to accumulated other comprehensive loss of $96 million were recognized.

The weighted-average assumptions used to compute the above information are set forth below:

	Pension		
	2001	2000	1999
Discount rate for benefit obligation	7.5%	7.8%	7.8%
Expected return on plan assets	10.0%	10.0%	10.0%
Rate of compensation increase	4.3%	4.6%	4.3%

	Postretirement		
	2001	2000	1999
Discount rate for benefit obligation	7.5%	7.8%	7.8%

Components of Pension Assets

The pension plan assets are principally invested in stocks and bonds. None of the assets are invested directly in PBG stock.

Health Care Cost Trend Rates

We have assumed an average increase of 8.0% in 2002 in the cost of postretirement medical benefits for employees who retired before cost sharing was introduced. This average increase is then projected to decline gradually to 4.5% in 2009 and thereafter.

Assumed health care cost trend rates have an impact on the amounts reported for postretirement medical plans. A one-percentage point change in assumed health care costs would have the following effects:

	1% Increase	1% Decrease
Effect on total fiscal year 2001 service and interest cost components	$ -	$ -
Effect on the fiscal year 2001 accumulated postretirement benefit obligation	7	(6)

Other Employee Benefit Plans

We made several changes to our employee benefit plans that took effect in fiscal year 2000. The changes were made to our vacation policy, pension and retiree medical plans and included some benefit enhancements as well as cost containment provisions. These changes did not have a significant impact on our financial results in 2001 or 2000.

In 1999, we implemented a matching company contribution to our 401(k) plan that began in 2000. The match is dependent upon the employee's contribution and years of service. The matching company contribution was approximately $17 million and $15 million in 2001 and 2000, respectively.

In the fourth quarter of 1999 we recognized a $16 million compensation charge related to full-year 1999 performance. This expense was one-time in nature and was for the benefit of our management employees, reflecting our successful operating results as well as providing certain incentive-related features.

Note 14—Employee Stock Option Plans

Under our long-term incentive plan, PBG stock options are issued to middle and senior management employees and vary according to salary and level. The following discussion of PBG stock options has been adjusted to reflect PBG's 2001 two-for-one stock split. Except as noted below, options granted in 2001 and 2000 had exercise prices ranging from $18.88 per share to $22.50 per share, and $9.38 per share to $15.88 per share, respectively, expire in 10 years and become exercisable 25% after the first year, 25% after the second year and the remainder after the third year. Options granted in 1999 had exercise prices ranging from $9.63 per share to $11.50 per share and, with the exception of our chairman's options, are exercisable after three years and expire in 10 years. PBG's chairman's 1999 options are exercisable ratably over the three years following PBG's initial public offering date.

In 2001, two additional option grants were made to certain senior management employees. One grant had an exercise price of $19.50 per share, expires in 10 years and became exercisable on the grant date. The other grant had an exercise price of $22.50 per share, expires in 10 years and becomes exercisable in 5 years.

In conjunction with PBG's initial public offering and our formation, PBG issued a one-time founders' grant of options to all full-time non-management employees in 1999 to purchase 200 shares of PBG stock. These options have an exercise price equal to the initial public offering price of $11.50 per share, are exercisable after three years and expire in 10 years.

In connection with the completion of PBG's initial public offering and our formation, PepsiCo vested substantially all non-vested PepsiCo stock options held by our employees. As a result, we incurred a $45 million non-cash compensation charge in the second quarter of 1999, equal to the difference between the market price of the PepsiCo capital stock and the exercise price of these options at the vesting date.

The following table summarizes option activity during 2001:

(Options in millions)	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	33.2	$10.75
Granted	10.2	20.47
Exercised	(1.8)	10.84
Forfeited	(1.9)	12.01
Outstanding at end of year	39.7	$13.20
Exercisable at end of year	6.6	$13.38
Weighted-average fair value of options granted during the year		$ 8.55

The following table summarizes option activity during 2000:

(Options in millions)	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	22.4	$11.49
Granted	13.2	9.57
Exercised	(0.2)	10.53
Forfeited	(2.2)	11.20
Outstanding at end of year	33.2	$10.75
Exercisable at end of year	1.8	$11.11
Weighted-average fair value of options granted during the year		$ 4.68

The following table summarizes option activity during 1999:

(Options in millions)	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	—	$ —
Granted	24.2	11.49
Exercised	—	—
Forfeited	(1.8)	11.50
Outstanding at end of year	22.4	$11.49
Exercisable at end of year	=	$ =
Weighted-average fair value of options granted during the year		$ 5.15

Stock options outstanding and exercisable at December 29, 2001:

(Options in millions)	Options Outstanding			Options Exercisable	
Range of Exercise Price	Options	Weighted-Average Remaining Contractual Life In Years	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
$9.38-$11.49	10.4	7.99	$ 9.38	2.2	$ 9.40
$11.50-$15.88	19.5	7.02	$11.55	2.3	$11.57
$15.89-$22.50	9.8	9.00	$20.47	2.1	$19.59
	39.7	7.77	$13.20	6.6	$13.38

We adopted the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation," but continue to measure stock-based compensation cost in accordance with the Accounting Principles Board Opinion 25 and its related interpretations. If we had measured compensation cost for the stock options granted to our employees under the fair value based method prescribed by SFAS 123, net income would have been changed to the pro forma amounts set forth below:

	2001	2000	1999
Net Income			
Reported	$ 587	$ 471	$ 273
Pro forma	523	425	244

The fair value of PBG stock options used to compute pro forma net income disclosures was estimated on the date of grant using the Black-Scholes option-pricing model based on the following weighted-average assumptions:

	2001	2000	1999
Risk-free interest rate	4.6%	6.7%	5.8%
Expected life	6 years	7 years	7 years
Expected volatility	35%	35%	30%
Expected dividend yield	0.20%	0.43%	0.35%

Note 15—Income Taxes

We are a limited liability company, taxable as a partnership for U.S. tax purposes and, as such, generally pay no U.S. federal or state income taxes. Our federal and state distributable share of income, deductions and credits are allocated to our owners based on their percentage of ownership. However, certain domestic and foreign affiliates pay income taxes in their respective jurisdictions. We had an income tax benefit of $1 million in 2001, and income tax expense of $22 million and $4 million in 2000 and 1999, respectively. These amounts were comprised of current income tax expense of $8 million, $27 million and $4 million and deferred income tax benefit of $9 million, $5 million and $0 in 2001, 2000 and 1999, respectively.

Our 2001 deferred income tax benefit includes a nonrecurring benefit of $25 million due to enacted tax rate changes in Canada during the year.

The details of our 2001 and 2000 deferred tax liabilities (assets) are set forth below:

	2001	2000
Intangible assets and property, plant and equipment	$175	$185
Other	36	7
Gross deferred tax liabilities	211	192
Net operating loss carryforwards	(121)	(139)
Various liabilities and other	(49)	(27)
Gross deferred tax assets	(170)	(166)
Deferred tax asset valuation allowance	122	148
Net deferred tax assets	(48)	(18)
Net deferred tax liability	$163	$174
Included in:		
Prepaid expenses and other current assets	$ (5)	$ (13)
Deferred income taxes	168	187
	$163	$174

We have net operating loss carryforwards totaling $370 million at December 29, 2001, which are available to reduce future taxes in the U.S., Spain, Greece and Russia. Of these carryforwards, $2 million expire in 2002 and $368 million expire at various times between 2003 and 2021. We have established a full valuation allowance for the net operating loss carryforwards attributable to Spain, Greece and Russia based upon our projection that it is more likely than not that these losses will not be realized. In addition, at December 29, 2001 we have a tax credit carryforward in the U.S. of $7 million with an indefinite carryforward period.

Our valuation allowances, which reduce deferred tax assets to an amount that will more likely than not be realized, have decreased by $26 million and increased by $1 million in 2001 and 2000, respectively.

Deferred taxes are not recognized for temporary differences related to investments in foreign subsidiaries that are essentially permanent in duration. Determination of the amount of unrecognized deferred taxes related to these investments is not practicable.

Income taxes receivable were $10 million and $7 million at December 29, 2001 and December 30, 2000, respectively. Such amounts are recorded within prepaid expenses and other current assets in our Consolidated Balance Sheets. Amounts paid to taxing authorities for income taxes were $11 million, $34 million and $3 million in 2001, 2000 and 1999 respectively.

Note 16—Geographic Data

We operate in one industry, carbonated soft drinks and other ready-to-drink beverages. We conduct business in 41 states and the District of Columbia in the United States. Outside the U.S., we conduct business in eight Canadian provinces, Spain, Greece and Russia.

	Net Revenues		
	2001	2000	1999
U.S.	$7,197	$6,830	$6,352
Other countries	1,246	1,152	1,153
	$8,443	$7,982	$7,505

	Long-Lived Assets		
	2001	2000	1999
U.S.	$6,232	$5,719	$5,398
Other countries	914	960	987
	$7,146	$6,679	$6,385

Note 17—Relationship with PepsiCo

At the time of PBG's initial public offering we entered into a number of agreements with PepsiCo. Although we are not a direct party to these contracts, as the principal operating subsidiary of PBG, we derive direct benefit from them. Accordingly, set forth below are the most significant agreements that govern our relationship with PepsiCo:

(1) the master bottling agreement for cola beverages bearing the "Pepsi-Cola" and "Pepsi" trademark in the United States; bottling and distribution agreements for non-cola products in the United States, including Mountain Dew; and a master fountain syrup agreement in the United States;

(2) agreements similar to the master bottling agreement and the non-cola agreements for each specific country, including Canada, Spain, Greece and Russia, as well as a fountain syrup agreement similar to the master syrup agreement for Canada;

(3) a shared services agreement whereby PepsiCo provides us or we provide PepsiCo with certain administrative support, including procurement of raw materials, transaction processing, such as accounts payable and credit and collection, certain tax and treasury services, and information technology maintenance and systems development. The amounts paid or received under this contract are equal to the actual costs incurred by the company providing the service. From 1998 through 2001, a PepsiCo affiliate provided casualty insurance to us; and

(4) transition agreements that provide certain indemnities to the parties, and provide for the allocation of tax and other assets, liabilities, and obligations arising from periods prior to the initial public offering. Under our tax separation agreement, PepsiCo maintains full control and absolute discretion for any combined or consolidated tax filings for tax periods ending on or before the initial public offering. PepsiCo has contractually agreed to act in good faith with respect to all tax audit matters affecting us. In addition, PepsiCo has agreed to use their best efforts to settle all joint interests in any common audit issue on a basis consistent with prior practice.

We purchase concentrate from PepsiCo that is used in the production of carbonated soft drinks and other ready-to-drink beverages. The price of concentrate is determined annually by PepsiCo at

their discretion. We also produce or distribute other products and purchase finished goods and concentrate through various arrangements with PepsiCo or PepsiCo joint ventures. We reflect such purchases in cost of sales.

We share a business objective with PepsiCo of increasing the availability and consumption of Pepsi-Cola beverages. Accordingly, PepsiCo, at its sole discretion, provides us with various forms of marketing support to promote its beverages. This support covers a variety of initiatives, including marketplace support, marketing programs, capital equipment investment, and shared media expense. Based on the objective of the programs and initiatives, we record marketing support as an adjustment to net revenues or as a reduction of selling, delivery and administrative expense.

We manufacture and distribute fountain products and provide fountain equipment service to PepsiCo customers in some territories in accordance with the Pepsi beverage agreements. Amounts received from PepsiCo for these transactions are offset by the cost to provide these services and are reflected in selling, delivery and administrative expenses. We pay a royalty fee to PepsiCo for the Aquafina trademark.

The Consolidated Statements of Operations include the following income (expense) amounts as a result of transactions with PepsiCo and its affiliates:

	2001	2000	1999
Net revenues	$ 262	$ 244	$ 236
Cost of sales	(1,927)	(1,626)	(1,488)
Selling, delivery and administrative expenses	259	266	285

We are not required to pay any minimum fees to PepsiCo, nor are we obligated to PepsiCo under any minimum purchase requirements. There are no conditions or requirements that could result in the repayment of any marketing support payments received by us from PepsiCo.

We distributed $16 million and $3 million in cash in 2001 and 2000, respectively to PepsiCo in accordance with our ownership agreement. Net amounts payable to PepsiCo and its affiliates were $17 million at December 29, 2001 and net amounts receivable from PepsiCo and its affiliates were $8 million at December 30, 2000. Such amounts are recorded within accounts payable and other current liabilities and accounts receivable in our Consolidated Balance Sheets, respectively.

Note 18—Contingencies

We are involved in a lawsuit with current and former employees concerning wage and hour issues in New Jersey. We are unable to predict the amount of any costs or implications of this case at this time as legal proceedings are ongoing.

We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. We believe that the ultimate liability arising from such claims or contingencies, if any, in excess of amounts already recognized is not likely to have a material adverse effect on our results of operations, financial condition or liquidity.

Note 19—Acquisitions

In May 2001, PBG acquired the Pepsi-Cola bottling operations along with the exclusive right to manufacture, sell and distribute Pepsi-Cola beverages from Pepsi-Cola Bottling of Northern California. In connection with the acquisition, PBG contributed certain net assets acquired totaling $74 million to Bottling LLC increasing its ownership of us from 92.9% to 93.0%. In August 2001, we acquired the operations and exclusive right to manufacture, sell and distribute Pepsi-Cola beverages from Pepsi-Cola Elmira Bottling Co. Inc. for $46 million in cash and assumed debt. These

acquisitions were made to enable us to provide better service to our large retail customers as well as reduce costs through economies of scale. In December 2001, PBG signed a letter of intent to purchase the Pepsi-Cola Bottling Company of Macon, Inc. The transaction is expected to close in the first quarter of 2002, and, as PBG's principal operating subsidiary, we expect that the majority of the net assets acquired will be contributed to us. During 2000, we acquired two territories in Canada for an aggregate purchase price of $26 million in cash.

These acquisitions were accounted for by the purchase method of accounting. The aggregate purchase price exceeded the fair value of net tangible assets acquired, in both 2001 and 2000, including the resulting tax effect, by approximately $108 million and $14 million, respectively. The excess was recorded in intangible assets. In addition, liabilities incurred and/or assumed in connection with these acquisitions totaled $20 million and $9 million in 2001 and 2000, respectively.

Note 20—Subsequent Events (unaudited)

During the first quarter of 2002, we acquired the operations and exclusive right to manufacture, sell and distribute Pepsi-Cola's international beverages in Turkey for a purchase price of approximately $100 million in cash and assumed debt.

Note 21—Selected Quarterly Financial Data (unaudited)

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Net revenues	$1,647	$2,060	$2,274	$2,462	$8,443
Gross profit	765	952	1,052	1,094	3,863
Operating income	90	218	285	85	678
Net income (1)	67	201	260	59	587

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Net revenues	$1,545	$1,913	$2,125	$2,399	$7,982
Gross profit	700	880	962	1,035	3,577
Operating income	75	191	257	68	591
Net income	51	158	227	35	471

(1) During 2001, the Canadian Government passed laws reducing federal and certain provincial corporate income tax rates. These rate changes resulted in one-time gains of $16 million and $9 million in the second and third quarters of 2001, respectively.

The first, second and third quarters of each year consisted of 12 weeks, while the fourth quarter consisted of 16 weeks in 2001 and 17 weeks in 2000. The extra week in fiscal year 2000 contributed $12 million of additional net income to our fourth quarter and fiscal year 2000 results.

345 Park Avenue
New York, NY 10154

Report of Independent Auditors

The Owners of
Bottling Group, LLC:

We have audited the accompanying Consolidated Balance Sheets of Bottling Group, LLC as of December 29, 2001 and December 30, 2000, and the related Consolidated Statements of Operations, Cash Flows and Changes in Owners' Equity for each of the fiscal years in the three-year period ended December 29, 2001. These Consolidated Financial Statements are the responsibility of management of Bottling Group, LLC. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of Bottling Group, LLC as of December 29, 2001 and December 30, 2000, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended December 29, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

New York, New York
January 24, 2002

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Managing Directors and Executive Officers of Bottling LLC

The name, age and background of each of the Bottling LLC's Managing Directors is set forth below:

John T. Cahill, 44, is a Managing Director of Bottling LLC. Mr. Cahill is currently the Chief Executive Officer of PBG. Previously, Mr. Cahill served as PBG's President and Chief Operating Officer from August 2000 to September 2001. Mr. Cahill has been a member of PBG's Board of Directors since January 1999 and served as PBG's Executive Vice President and Chief Financial Officer prior to becoming President and Chief Operating Officer in August 2000. He was Executive Vice President and Chief Financial Officer of the Pepsi-Cola Company from April 1998 until November 1998. Prior to that, Mr. Cahill was Senior Vice President and Treasurer of PepsiCo, having been appointed to that position in April 1997. In 1996, he became Senior Vice President and Chief Financial Officer of Pepsi-Cola North America. Mr. Cahill joined PepsiCo in 1989 where he held several other senior financial positions through 1996.

Pamela C. McGuire, 54, is a Managing Director of Bottling LLC. She is also the Senior Vice President, General Counsel and Secretary of PBG. She was the Vice President and Division Counsel of the Pepsi-Cola Company from 1989 to March 1998, at which time she was named its Vice President and Associate General Counsel. Ms. McGuire joined PepsiCo in 1977 and held several other positions in its legal department through 1989.

Matthew M. McKenna, 51, is a Managing Director of Bottling LLC. He is also the Senior Vice President of Finance of PepsiCo. Previously he was Senior Vice President and Treasurer and before that, Senior Vice President, Taxes. Prior to joining PepsiCo in 1993 as Vice President, Taxes, he was a partner with the law firm of Winthrop, Stimson, Putnam & Roberts in New York.

Pursuant to Item 401(b) of Regulation S-K, the executive officers of Bottling LLC are reported in Part I of this Report. Executive officers are elected by the Managing Directors of Bottling LLC, and their terms of office continue until their successors are appointed and qualified or until their earlier resignation or removal. There are no family relationships among our executive officers. Managing Directors are elected by a majority of Members of Bottling LLC and their terms of office continue until their successors are appointed and qualified or until their earlier resignation or removal, death or disability.

Item 11. Executive Compensation

Summary of Cash and Certain Other Compensation. The following table provides information on compensation earned and stock options awarded for the years indicated by PBG to Bottling LLC's Principal Executive Officer and the two other executive officers of Bottling LLC as of the end of the 2001 fiscal year in accordance with the rules of the Securities and Exchange Commission. These three individuals are referred to as the named executive officers.

Summary Compensation Table

		Annual Compensation			Long Term Compensation	
Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual Compensation $	Securities Under-Lying Options [1] [2] (#)	All Other Compensation ($)
John T. Cahill	2001	$ 636,712	$ 870,000	$ 12,566 [3]	739,300 [4]	$ 6,821 [5] [6]
Principal	2000	539,904	811,320	14,139	240,000	6,800
Executive Officer	1999	468,077	531,250	7,608	264,130	1,000,000
Alfred H. Drewes	2001	175,000[7]	268,090 [7]	7,522 [3]	135,758	0
Principal Financial	2000	—	—	—	—	—
Officer	1999	—	—	—	—	—
Andrea L. Forster	2001	180,154	106,920	4,695 [3]	43,622	6,800 [6]
Principal Accounting	2000	163,857	126,990	4,695	33,707	6,800
Officer	1999	135,565	74,180	4,695	17,557	100,000

(1) Amounts include (i) a standard annual stock option award and (ii) a one-time variable award granted prior to PBG's IPO ("Variable Award") that was payable in cash or stock options at the election of the executive. These Variable Awards are based on PBG performance targets as pre-established by the Compensation Subcommittee. The stock options granted pursuant to the Variable Awards became exercisable on February 1, 2001.

(2) Stock options granted in 2001 are adjusted to reflect the 2-for-1 split of PBG Common Stock effective November 27, 2001; stock options granted in 2000 and 1999 are presented on a pre-split basis.

(3) This amount represents payment of executive's tax liability with respect to certain Company provided perquisites.

(4) This amount includes a special stock option award granted in September 2001 in recognition of new roles and responsibilities as a result of senior management succession. These stock options become exercisable on September 30, 2006.

(5) In 2001, Mr. Cahill waived his right to receive certain future compensation payments under PBG's executive income deferral plan. In connection with this waiver, PBG entered into an arrangement by which such waived amount was used for the purpose of purchasing insurance for his benefit and the benefit of his designated beneficiaries. The cost of the insurance policy will not exceed the cost PBG would have incurred with respect to the compensation payment waived by Mr. Cahill. The premium amount of $21.00 included for Mr. Cahill is based on coverage

not exceed the cost PBG would have incurred with respect to the compensation payment waived by Mr. Cahill. The premium amount of $21.00 included for Mr. Cahill is based on coverage being effective for 4 days in 2001.

(6) This amount includes a standard Company matching contribution of $6,800 in PBG Common Stock to the executive's 401(k) account.

(7) Mr. Drewes' salary reflects his employment with PBG effective June 25, 2001. Mr. Drewes' bonus reflects a full year payout based on PBG and PepsiCo Beverages International performance results.

Item 12. Security Ownership of Certain Beneficial Owners and Management

PBG holds 93% and PepsiCo indirectly holds 7.0% of the ownership in Bottling LLC.

Item 13. Certain Relationships and Related Transactions

Although Bottling LLC is not a direct party to the following transactions, as the principal operating subsidiary of PBG, it derives certain benefits from them. Accordingly, set forth below is information relating to certain transactions between PBG and PepsiCo.

Stock Ownership and Director Relationships with PepsiCo. PBG was initially incorporated in January 1999 as a wholly owned subsidiary of PepsiCo to effect the separation of most of PepsiCo's company-owned bottling businesses. PBG became a publicly traded company on March 31, 1999. As of February 21, 2002, PepsiCo's ownership represented 37.9% of the outstanding Common Stock and 100% of the outstanding Class B Common Stock together representing 42.9% of the voting power of all classes of PBG's voting stock. PepsiCo also owns 7.0% of the equity of Bottling Group, LLC, PBG's principal operating subsidiary.

Agreements and Transactions with PepsiCo and Affiliates. PBG and PepsiCo (and certain of its affiliates) have entered into transactions and agreements with one another, incident to their respective businesses, and PBG and PepsiCo are expected to enter into material transactions and agreements from time to time in the future. As used in this section, "PBG" includes the Company and its subsidiaries.

Material agreements and transactions between PBG and PepsiCo (and certain of its affiliates) during 2001 are described below.

Beverage Agreements and Purchases of Concentrates and Finished Products. PBG purchases concentrates from PepsiCo and manufactures, packages, distributes and sells carbonated and non-carbonated beverages under license agreements with PepsiCo. These agreements give PBG the right to manufacture, sell and distribute beverage products of PepsiCo in both bottles and cans and fountain syrup in specified territories. The agreements also provide PepsiCo with the ability to set prices of such concentrates, as well as the terms of payment and other terms and conditions under which PBG purchases such concentrates. In addition, PBG bottles water under the Aquafina trademark pursuant to an agreement with PepsiCo, which provides for the payment of a royalty fee to PepsiCo. In certain instances, PBG purchases finished beverage products from PepsiCo.

During 2001, total payments by PBG to PepsiCo for concentrates, royalties and finished beverage products were approximately $1.7 billion.

PBG Manufacturing Services. PBG provides manufacturing services to PepsiCo in connection with the production of certain finished beverage products. In 2001, amounts paid or payable by PepsiCo to PBG for these services were approximately $13.8 million.

Purchase of Distribution Rights. During 2001, PBG paid PepsiCo $9.1 million for distribution rights relating to the SoBe brand in certain PBG-owned territories in the United States.

Transactions with Joint Ventures in which PepsiCo holds an equity interest. PBG purchases tea concentrate and finished beverage products from the Pepsi/Lipton Tea Partnership, a joint venture of Pepsi-Cola North America, a division of PepsiCo, and Lipton (the "Partnership"). During 2001, total amounts paid or payable to PepsiCo for the benefit of the Partnership were approximately $116.7 million. In addition, PBG provides certain manufacturing services in connection with the hot-filled tea products of the Partnership to PepsiCo for the benefit of the Partnership. In 2001, amounts paid or payable by PepsiCo to PBG for these services were approximately $18.4 million.

PBG purchases finished beverage products from the North American Coffee Partnership, a joint venture of Pepsi-Cola North America and Starbucks. During 2001, amounts paid or payable to the North American Coffee Partnership by PBG were approximately $108.3 million.

In addition to the amounts described above, PBG received approximately $4.2 million from an international joint venture, in which PepsiCo holds an equity interest in 2001.

Purchase of Snack Food Products from Frito-Lay, Inc. PBG purchases snack food products from Frito-Lay, Inc., a subsidiary of PepsiCo, for sale and distribution through all of Russia except for Moscow. In 2001, amounts paid or payable by PBG to Frito-Lay, Inc. were approximately $27.1 million.

Shared Services. PepsiCo provides various services to PBG pursuant to a shared services agreement, including procurement of raw materials, processing of accounts payable and credit and collection, certain tax and treasury services and information technology maintenance and systems development. During 2001, amounts paid or payable to PepsiCo for shared services totaled approximately $178.9 million.

Pursuant to the shared services agreements, PBG provides certain employee benefit and international tax and accounting services to PepsiCo. During 2001, payments to PBG from PepsiCo for these services totaled approximately $598,000.

Rental Payments. Amounts paid or payable by PepsiCo to PBG for rental of office space at certain PBG facilities were approximately $11.6 million in 2001.

Insurance Services. Hillbrook Insurance Company, Inc., a subsidiary of PepsiCo, provides insurance and risk management services to PBG pursuant to a contractual arrangement. Costs associated with such services in 2001 totaled approximately $57.8 million.

National Fountain Services. PBG provides certain manufacturing, delivery and equipment maintenance services to PepsiCo's national fountain customers. In 2001, net amounts paid or payable by PepsiCo to PBG for these services were approximately $184.6 million.

Marketing and Other Support Arrangements. PepsiCo provides PBG with various forms of marketing support. The level of this support is negotiated annually and can be increased or decreased at the discretion of PepsiCo. This marketing support is intended to cover a variety of programs and initiatives, including direct marketplace support (including point-of-sale materials), capital equipment funding and shared media and advertising support. For 2001, total direct marketing support funding paid or payable to PBG by PepsiCo approximated $553.8 million.

Transactions with Bottlers in which PepsiCo holds an Equity Interest. PBG and PepsiAmericas, Inc., a bottler in which PepsiCo owns an equity interest, and PBG and Pepsi Bottling Ventures LLC, a bottler in which PepsiCo owns an equity interest, bought from and sold to each other finished beverage products. These transactions occurred in instances where the proximity of one party's production facilities to the other party's markets or lack of manufacturing capability, as well as other economic considerations, made it more efficient or desirable for one bottler to buy finished product from another. In 2001, PBG's sales to those bottlers totaled approximately $774,000 and purchases were approximately $40,000.

PBG provides certain administrative support services to PepsiAmericas, Inc. and Pepsi Bottling Ventures LLC. In 2001, amounts paid or payable by PepsiAmericas, Inc. and Pepsi Bottling Ventures LLC to PBG for these services were approximately $650,000.

In connection with PBG's acquisition of Pepsi-Cola Bottling of Northern California ("Northern California") in 2001, PBG paid $10.3 million to PepsiCo for its equity interest in Northern California.

On March 13, 2002, PBG acquired the operations and exclusive right to manufacture, sell and distribute Pepsi-Cola's international beverages in Turkey. As part of this acquisition, PBG paid PepsiCo $7.3 million, subject to certain purchase price adjustments, for its equity interest in the acquired entity and received $16.4 million from PepsiCo for the sale of the acquired entity's local brands to PepsiCo.

Bottling Group, LLC Distribution. PepsiCo has a 7.0% ownership interest in Bottling Group, LLC, our principal operating subsidiary. In accordance with the Bottling Group, LLC's Limited Liability Company Agreement, PepsiCo received a $15.8 million distribution from Bottling Group, LLC in 2001.

Relationships and Transactions with Management and Others. Linda G. Alvarado, a member of PBG's Board of Directors, together with her husband and children, own and operate Taco Bell and Pizza Hut restaurant companies that purchase beverage products from PBG. In 2001, the total amount of these purchases was approximately $382,521.

PART IV

Item 14. Exhibits, Financial Statement Schedule and Reports on Form 8-K

(a) 1. Financial Statements. The following consolidated financial statements of Bottling LLC and its subsidiaries, are incorporated by reference into Part II, Item 8 of this report:

Consolidated Statements of Operations – Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999.

Consolidated Statements of Cash Flows – Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999.

Consolidated Balance Sheets – December 29, 2001 and December 30, 2000.

Consolidated Statements of Changes in Shareholders' Equity – Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999.

Notes to Consolidated Financial Statements.

Report of Independent Auditors.

2. Financial Statement Schedule. The following financial statement schedule of Bottling LLC and its subsidiaries is included in this report on the page indicated:

3. Exhibits

See Index to Exhibits on pages E-1 - E-3.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, The Pepsi Bottling Group, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 28, 2002

Bottling Group, LLC

By: /s/ John T. Cahill
John T. Cahill
Principal Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Bottling Group, LLC and in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE
/s/ John T. Cahill John T. Cahill	Principal Executive Officer and Managing Director	March 28, 2002
/s/ Alfred H. Drewes Alfred H. Drewes	Principal Financial Officer	March 28, 2002
/s/ Andrea L. Forster /s/ Andrea L. Forster	Principal Accounting Officer	March 28, 2002
/s/ Pamela C. McGuire Pamela C. McGuire	Managing Director	March 28, 2002
/s/ Matthew M. McKenna Matthew M. McKenna	Managing Director	March 28, 2002

INDEX TO FINANCIAL STATEMENT SCHEDULE

345 Park Avenue
New York, NY 10154

INDEPENDENT AUDITORS' REPORT

Owners of
Bottling Group, LLC:

Under date of January 24, 2002, we reported on the Consolidated Balance Sheets of Bottling Group, LLC as of December 29, 2001 and December 30, 2000, and the related Consolidated Statement of Operations, Cash Flows and Changes in Owners' Equity for each of the fiscal years in the three-year period ended December 29, 2001, which are included in this Form 10-K. In connection with our audits of the aforementioned Consolidated Financial Statements, we also audited the related consolidated financial statement schedule included in this Form 10-K. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits.

In our opinion, such consolidated financial statement schedule, when considered in relation to the basic Consolidated Financial Statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

New York, New York
January 24, 2002

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
BOTTLING GROUP, LLC
IN MILLIONS

DESCRIPTION	Balance At Beginning Of Period	ADDITIONS Charged To Cost And Expenses	ADDITIONS Charged To Other Accounts (a)	Deductions (b)	Balance At End Of Period
FISCAL YEAR ENDED					
December 29, 2001					
Allowance for losses on trade accounts receivable.....	$42	$ 9	$ —	$ 9	$42
December 30, 2000					
Allowance for losses on trade accounts receivable	$48	$ 2	$ —	$ 8	$42
December 25, 1999					
Allowance for losses on trade accounts receivable.....	$46	$ 6	$ 3	$7	$48

(a) Represents recoveries of amounts previously written off.
(b) Charge off of uncollectable accounts.

INDEX TO EXHIBITS
ITEM 14(a)(3)

EXHIBIT	
3.1	Articles of Formation of Bottling LLC which is incorporated herein by reference from Exhibit 3.4 to Bottling LLC's Registration Statement on Form S-4 (Registration No. 333-80361)
3.2	Amended and Restated Limited Liability Company Agreement of Bottling LLC which is incorporated herein by reference from Exhibit 3.5 to Bottling LLC's Registration Statement on Form S-4 (Registration No. 333-80361)
4.1	Indenture dated as of February 8, 1999 among Pepsi Bottling Holdings, Inc., PepsiCo, Inc. and The Chase Manhattan Bank, as trustee, relating to $1,000,000,000 5 3/8% Senior Notes due 2004 and $1,300,000,000 5 5/8% Senior Notes due 2009 incorporated herein by reference to Exhibit 10.9 to PBG's Registration Statement on Form S-1/A (Registration No. 333-70291).
4.2	First Supplemental Indenture dated as of February 8, 1999 among Pepsi Bottling Holdings, Inc., Bottling Group, LLC, PepsiCo, Inc. and The Chase Manhattan Bank, as trustee, supplementing the Indenture dated as of February 8, 1999 among Pepsi Bottling Holdings, Inc., PepsiCo, Inc. and The Chase Manhattan Bank, as trustee is incorporated herein by reference to Exhibit 10.10 to PBG's Registration Statement on Form S-1/A (Registration No. 333-70291).
4.3	Indenture, dated as of March 8, 1999, by and among The Pepsi Bottling Group, Inc., as obligor, Bottling Group, LLC, as guarantor, and The Chase Manhattan Bank, as trustee, relating to $1,000,000,000 7% Series B Senior Notes due 2029 which is incorporated herein by reference to Exhibit 10.14 to PBG's Registration Statement on Form S-1/A (Registration No. 333-70291).
4.4	U.S. $250,000,000 364 Day Credit Agreement, dated as of April 22, 1999 among PBG, Bottling LLC, The Chase Manhattan Bank, Bank of America National Trust and Savings Association, , Citibank, N.A., Credit Suisse First Boston, UBS AG, Lehman Commercial Paper Inc., Royal Bank of Canada, Banco Bilbao Vizcaya, Deutsche Bank AG New York Branch and/or Cayman Islands Branch, Fleet National Bank, Hong Kong & Shanghai Banking Corp., The Bank of New York, The Northern Trust Company, The Chase Manhattan Bank, as Agent, Chase Securities Inc. as Arranger and Nationsbanc Montgomery Securities LLC and Solomon Smith Barney Inc. as Co-Syndication Agents which is incorporated herein by reference from Exhibit 4.5 to PBG's Annual Report on Form 10-K for the fiscal year ended December 25, 1999.

4.5	U.S. $250,000,000 5 Year Credit Agreement, dated as of April 22, 1999 among PBG, Bottling LLC, The Chase Manhattan Bank, Bank of America National Trust and Savings Association, , Citibank, N.A., Credit Suisse First Boston, UBS AG, Lehman Commercial Paper Inc., Royal Bank of Canada, Banco Bilbao Vizcaya, Deutsche Bank AG New York Branch and/or Cayman Islands Branch, Fleet National Bank, Hong Kong & Shanghai Banking Corp., The Bank of New York, The Northern Trust Company, The Chase Manhattan Bank, as Agent, Chase Securities Inc. as Arranger and Nationsbanc Montgomery Securities LLC and Solomon Smith Barney Inc. as Co-Syndication Agents which is incorporated herein by reference from Exhibit 4.6 to PBG's Annual Report on Form 10-K for the fiscal year ended December 25, 1999.
4.6	U.S. $250,000,000 364 Day Credit Agreement, dated as of May 3, 2000 among PBG, Bottling Group, LLC, The Chase Manhattan Bank, Bank of America, N. A., Citibank, N.A., Credit Suisse First Boston, UBS AG, Lehman Commercial Paper Inc., The Northern Trust Company, Deutsche Bank AG New York Branch and/or Cayman Islands Branch, Royal Bank of Canada, Banco Bilbao Vizcaya, Fleet National Bank, The Bank of New York, The Chase Manhattan Bank, as Agent, Solomon Smith Barney Inc and Banc of America Securities LLC as Co-Lead Arrangers and Book Managers and Citibank, N.A. and Bank of America, N.A. as Co-Syndication Agents which is incorporated herein by reference from Exhibit 4.6 to PBG's Annual Report on Form 10-K for the fiscal year ended December 25, 1999.
4.7	U.S. $250,000,000 Amended and Restated 364 Day Credit Agreement, dated as of May 2, 2001 among PBG, Bottling Group, LLC, The Chase Manhattan Bank, Bank of America, N. A., Citibank, N.A., Credit Suisse First Boston, Lehman Commercial Paper Inc., The Northern Trust Company, Deutsche Bank AG New York Branch and/or Cayman Islands Branch, Royal Bank of Canada, Banco Bilbao Vizcaya, Fleet National Bank, The Bank of New York, State Street Bank and Trust Company, The Chase Manhattan Bank, as Agent, Salomon Smith Barney Inc and JP Morgan as Co-Lead Arrangers and Book Managers and Citibank, N.A. and Bank of America, N.A., as Co-Syndication Agents.
21	Subsidiaries of Bottling Group LLC.

Subsidiaries of The Pepsi Bottling Group, Inc. ("PBG")

Exhibit B in response to question 1

Name of Subsidiary	State/Date of Incorporation	Agent for Service of Process	President/Managing Directors and Address	Ownership/Relationship
AJN Holdings, Inc.	Delaware 5/27/99	National Registered Agents, Inc ("NRAI")	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Alistar Beverages Corporation	Washington 3/19/80	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Allied Acquisition Company of Delaware, Inc.	Delaware 10/29/98	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Atlantic Holding Company	California 6/6/96	NRAI	William Robinson 5000 Hopyard Road, Suite 270 Pleasanton, CA 94588	Indirectly 100% owned by PBG
Atlantic Soft Drink Company, Inc.	South Carolina 10/1/85	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Beverage Products Corporation	Oklahoma 9/28/96	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Bottling Group Holdings, Inc.	Delaware 12/21/98	NRAI in DE and NJ	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Bottling Group, LLC ("BGLLC")	Delaware 1/27/99	CSC The US Corporation Company in DE and NJ	John T. Cahill Pamela C. McGuire Matthew M. McKenna Are Managing Directors One Pepsi Way Somers, NY 10589	93% owned and controlled by PBG and Bottling Group Holdings, Inc. and 7% owned by Pepsi Bottling Holdings, Inc.

Subsidiaries of The Pepsi Bottling Group, Inc. ("PBG")

Name of Subsidiary	State/Date of Incorporation	Agent for Service of Process	President/Managing Directors and Address	Ownership/Relationship
C & I Leasing, Inc.	Maryland 7/30/97	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Centran, Inc.	Pennsylvania 3/7/83	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
CSD Sawgrass, Inc.	Florida 12/30/97	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
D.C. Beverages, Inc.	Delaware 2/14/00	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Desormeau Vending Corp.	New York 12/14/98	CSC The US Corporation Company	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
General Cinema Beverages of North Florida, Inc.	Delaware 11/1/74	CT Corporation System	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
General Cinema Beverages of Virginia, Inc.	Delaware 12/8/88	CT Corporation System	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
General Cinema Beverages of Washington, D.C., Inc.	Delaware 9/28/72	CT Corporation System	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Gray Bern Holdings, Inc.	Delaware 1/5/99	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	100% owned by BG LLC.

Subsidiaries of The Pepsi Bottling Group, Inc. ("PBG")

Name of Subsidiary	State/Date of Incorporation	Agent for Service of Process	President/Managing Directors and Address	Ownership
Grayhawk Leasing, LLC	Delaware 4/14/00	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by BGLLC
Hillwood Bottling, LLC	Delaware 6/22/99	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	100% owned by BG LLC
International Bottlers Management Co. LLC	Delaware 2/14/96	CSC The US Corporation Company	Steven M. Rapp Jude Lemke Geoffrey Kupferschmid Michael Savinelli Are Managing Directors One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
New Bern Transport Corporation	Delaware 5/19/97	CT Corporation System	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by BGLLC
PBG Canada Finance, LLC	Delaware 1/4/99	NRAI	Steven M. Rapp Regina Allegretti-Davenport Jude Lemke Geoffrey Kupferschmid Are Managing Directors	Indirectly 100% owned by PBG
PBG Canada Finance II, LLC	Delaware 12/21/01	NRAI	Steven M. Rapp Regina Allegretti-Davenport Jude Lemke Geoffrey Kupferschmid Are Managing Directors One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG

Subsidiaries of The Pepsi Bottling Group, Inc. ("PBG")

Name of Subsidiary	State/Date of Incorporation	Agent for Service of Process	President/Managing Directors and Address	Ownership/Relationship
PBG Canada Holdings, Inc.	Delaware 2/28/99	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
PBG Commerce, Inc.	Delaware 12/9/99	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
PBG Michigan, LLC	Delaware 12/8/99	NRAI	Steven M. Rapp Regina Allegretti-Davenport Pamela McGuire Are Managing Directors One Pepsi Way Somers, NY 10589	Indirectly 100% owned by BGLLC
PBG Spirituosen Holdings, LLC	Delaware 12/18/98	NRAI	Steven M. Rapp Regina Allegretti-Davenport Jude Lemke Geoffrey Kupferschmid Are Managing Directors One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
PBG Texas, L.P.	Delaware 12/5/01	NRAI	Bottling Group, LLC is the General Partner and John T. Cahill Pamela C. McGuire Matthew M. McKenna Are Managing Directors of the General Partner One Pepsi Way Somers, NY 10589	Indirectly 100% owned by BGLLC

Subsidiaries of The Pepsi Bottling Group, Inc. ("PBG")

Name of Subsidiary	State/Date of Incorporation	Agent for Service of Process	President/Managing Directors and Address	Ownership/Relationship
Pepsi-Cola Allied Bottlers, Inc.	Delaware 12/10/86	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Pepsi-Cola Commodities, Inc.	Delaware 2/14/00	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Pepsi-Cola General Bottlers of Princeton, Inc.	West Virginia 12/29/53	CT Corporation System	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Pepsi-Cola General Bottlers of Virginia, Inc.	Virginia 6/21/48	James C. Brincefield	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Pepsi-Cola Laurel Bottling Company	Pennsylvania 4/21/80	CSC The US Corporation Company	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Primrose, LLC	Delaware 4/14/00	NRAI	Steven M. Rapp Celeste Tate Geoffrey Kupferschmid Are Managing Directors One Pepsi Way Somers, NY 10589	Indirectly 100% owned by BGLLC.
Rice Bottling Enterprises, Inc.	Tennessee 5/16/55	CT Corporation System	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG

Subsidiaries of The Pepsi Bottling Group, Inc. ("PBG")

Name of Subsidiary	State/Date of Incorporation	Agent for Service of Process	President/Managing Directors and Address	Ownership/Relationship
Rockledge Holdings, LLC	Delaware 12/5/01	NRAI	Steven M. Rapp Regina Allegretti-Davenport Jude Lemke Geoffrey Kupferschmid Are Managing Directors One Pepsi Way Somers, NY 10589	Indirectly 100% owned by BGLLC
TGCC, Inc.	Delaware 12/18/92	CT Corporation System	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
White Co., Inc.	Delaware 12/21/98	NRAI	Alfred H. Drewes One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG
Woodlands Insurance Company	Vermont 11/20/01	Marsh Management Services	Andrea Forster One Pepsi Way Somers, NY 10589	Indirectly 100% owned by PBG

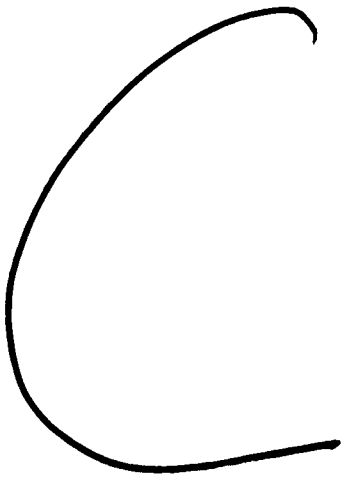


Exhibit C in response to question 2

PBOE Conformed Copy

THIS AGREEMENT OF LEASE, made and entered into this 6th day of December, 1949, by and between ALEXANDER SUMMER, INC., a New Jersey Corporation (hereinafter designated as "Lessor"), and PEPSI-COLA METROPOLITAN BOTTLING COMPANY, INC., a New Jersey corporation (hereinafter designated as "Lessee").

W I T N E S S E T H:

WHEREAS, Lessor is the owner of a certain parcel of land and premises in the Borough of Teterboro, in the County of Bergen and State of New Jersey; and

WHEREAS, Lessor is to make, construct and erect upon said parcel of land and premises certain improvements, buildings and structures more particularly described herein and to lease the same as so improved to Lessee, upon the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the sum of One Dollar by each to the other in hand paid, receipt whereof is hereby acknowledged, and of the covenants and agreements herein set forth, the parties hereto hereby covenant and agree as follows:

CONSTRUCTION OF DEMISED PREMISES

1. Lessor hereby agrees, at its own cost and expense, to make, construct and erect upon the parcel of land and premises hereinafter described, all of the improvements, buildings and structures shown upon or by the plans, drawings and specifications marked Exhibit 'A' and annexed hereto and made part hereof; and Lessor shall have all of said improvements, buildings and structures completed in strict accordance with such plans, drawings and specifications and ready for occupancy and use on or before May 1, 1950, except for delays in construction due to circumstances beyond the reasonable control of Lessor.

COMMENCEMENT OF TERM

2. Upon substantial completion of the demised premises and issuance of Certificate of Occupancy, in accordance with the foregoing, Lessor will notify Lessee, in writing, of the date upon which the demised premises as hereinafter defined shall be ready for occupancy and use by Lessee, and Lessor shall deliver possession thereof to Lessee on said date, and upon acceptance thereof by Lessee forthwith, said date shall thereupon become the date of the commencement of the term hereof.

DESCRIPTION OF DEMISED PREMISES

3. Lessor hereby demises and leases unto Lessee, and Lessee hereby hires from Lessor all that certain tract, piece, or parcel of land and premises, situate, lying and being in the Borough of Teterboro, County of Bergen, and State of New Jersey, and being more particularly bounded and described as follows:

BEGINNING at a point in the southwesterly line of North Street which point is distant 540 feet on a course of South 59° 43' 30" East from the point formed by the intersection of the said southwesterly line of North Street with the southeasterly line of Green Street, and from said point of beginning running thence (1) South 59° 43' 30" East along the said southwesterly line of North Street a distance of 300 feet to a pipe; thence (2) South 30° 16' 30" West a distance of 451.62 feet to a pipe; thence (3) North 53° 42' 30" West a distance of 301.66 feet to a pipe; thence (4) North 30° 16' 30" East a distance of 420 feet to a pipe in the southerly line of North Street, being the point or place of beginning.

Together with an easement over a strip of land 10 feet in width, described as follows:

Beginning at the southwesterly corner of the above described premises and from said point of beginning running (1) westerly and along a westerly prolongation of the southerly line of said lands North 53 degrees 42 minutes 30 seconds west 608.00 feet to a drainage ditch; thence (2) northerly and along same north 30 degrees 16 minutes 30 seconds east 10.05 feet to a point; thence (3) easterly and parallel with the first course, south 53 degrees 42 minutes 30 seconds east 608.00 feet to the westerly line of the above described premises; thence (4) southerly and along said line, south 30 degrees 16 minutes 30 seconds west 10.05 feet to the point or place of beginning.

Said easement being for the purpose of constructing, using, maintaining, repairing, replacing and cleaning a certain drainage pipe 12 inches in diameter to be installed therein beneath the surface of the ground.

Said pipe line, so installed, shall be for the

benefit of and limited in use to the owners, occupants and tenants of the lands above described and to the owners, occupants and tenants of the lands lying westerly of the lands hereinabove described bounded on the North by the southwesterly side of North Street, bounded on the West by the southeasterly line of Green Street and on the South by the existing railroad siding or spur.

Subject to zoning restrictions of the Borough of Teterboro.

Subject to restrictions against the use of said premises for residential or dwelling purposes as stated in deed of Riser Land Company to Ridgeland, Inc. dated December 30, 1946, recorded in the Bergen County Clerk's Office in Book 2726 of Deeds, page 371, and to the effect of restrictive covenants contained in deed of Riser Land Company to Virginia Dare Extract Company, Inc., recorded in Book 2314 of Deeds, page 605.

Subject to restrictions as set forth in the provisions of the Zoning Ordinance of the Borough of Teterboro, passed October 2nd, 1945, wherein it is provided in Section 5 that the premises hereinabove described are included in District "A", known as the "Restricted Industry Zone" in which district, no building or premises shall be used, and no building shall be erected or altered which is arranged, intended or designed to be used as a dwelling or residence. The erection, alteration or use of buildings or structures for residential purposes of any kind is hereby expressly prohibited.

together with all the improvements, buildings and structures that may be constructed and erected thereon by the Lessor as hereinbefore provided, (hereinafter referred to as "the demised premises") for a term beginning at the date of the commencement of the term hereof, as hereinabove specified, and extending

RENT

twenty years from and after said date, unless sooner terminated or further extended as herein provided, at a total net rental of $374,400 for the term, at the rate of $18,720 per year, such rental to be paid by Lessee to Lessor in equal monthly installments of $1,560. Each such installment shall become due and payable on the 1st day of each month in advance, and not to be considered in default until after the 10th day of the month when same becomes due. Until notified to the contrary, the rent shall be paid to Lessor at #790 Queen Anne Road, Teaneck, New Jersey.

USE

The demised premises shall be used for manufacturing, bottling, selling and distributing soft drinks, administrative and executive offices, display and showrooms, storage and servicing of trucks or for any lawful business in which the Lessee or its sub-lessee or assignee may be engaged at any time during the term of this lease and/or any extensions thereof, provided that the use of said demised premises shall not be for any noxious, offensive, or extra-hazardous purpose, nor in such way as to cause a greater wear and tear of the demised premises than the use thereof as herein provided for.

NO WAIVER BY ENTRY

4. Lessee, by its entry into occupancy of the demised premises, or by its payment of rent, shall not be deemed to have waived performance or completion by the Lessor of any matter or thing required of Lessor in connection with the completion of the demised premises in accordance with the plans, drawings and specifications referred to in paragraph '1' hereof.

5. Lessee agrees to pay promptly all bills rendered for water, gas, electricity, or any and all other utilities used by it in said premises during said term and to furnish all heat required for its own use and occupancy.

SIGNS

6. Lessor grants to Lesse the sole and exclusive right to have, erect and exclusively maintain any sign or signs, electrical or otherwise, on the roof of the demised premises or any other portion thereof, in accordance with all laws, orders, rules and regulations applicable thereto and without in any manner damaging the building, anything contained in this Lease to the contrary notwithstanding, providing Lessee shall save Lessor harmless from any cost, expense or liability arising therefrom. Any signs erected shall be of such weight and construction as will not require any changes or additions in the building on the demised premises.

LESSEE'S IMPROVE-MENTS

7. The Lessee shall have the privilege of placing in and attaching to said premises, shelving, partitions, fixtures, machinery and other equipment and facilities desirable for its business, provided the same do not entail irreparable injury or damage to Lessor's building or to the walls, floors or other parts thereof, and Lessee shall retain its right, title and interest in and to the same and may remove all such shelving, partitions, fixtures, machinery, equipment and facilities placed by Lessee in such premises, provided all damage and defacement to said building, which is occasioned by such removal, be repaired by the said Lessee and be placed in as good condition with reference thereto as the said building was in when possession thereof was delivered under this Lease to said Lessee, reasonable wear and tear excepted.

REPAIRS AND WARRANTY

8. Lessee agrees to make all repairs, outside and inside, to the leased premises, and all its improvements and appurtenances, during its use and occupancy thereof (not caused by structural failure or settlement) that may be necessary to preserve the same in good repair and condition. Upon written

notice from Lessee to Lessor, the Lessor, at its own cost and expense, shall forthwith and with due diligence, make such repairs that are caused by structural failure or settlement. In such event, the Lessee shall not be entitled to or claim any abatement or diminution of rent or other charges hereunder, or any portion thereof, and no compensation shall be claimed or allowed to the Lessee for any damage to or destruction of the premises or any part thereof.

PAYMENT OF TAXES

9. Lessee agrees to pay all local, city, state, federal and other real estate taxes, assessments and charges which may be imposed, fixed or levied upon the demised premises after the date of the commencement of the term hereof, and will keep the demised premises free of and from any and all liens for unpaid taxes and assessments during the demised term; provided, however, that if any such tax, assessment or charge may be paid in installments, Lessee may make such payment in installments, and provided further, that if Lessee deems excessive, illegal or improper any such tax, assessment or other charges, Lessee may defer payment thereof so long as the validity or amount thereof is contested by Lessee in good faith. Any such contest may be made in the name of Lessor or Lessee or both, as Lessee shall determine, and Lessor agrees to cooperate with Lessee in any such contest but without expense to Lessor.

NET LEASE

10. It is the intention of the parties that the aforesaid rent shall be paid to the Lessor absolutely net, without deduction of any nature whatsoever except as in this Lease otherwise expressly provided, and, accordingly, if at any time during the term hereof under the laws of the Municipality, County or State of New Jersey, a tax or excise on rents or other tax however described is levied or assessed by said City or State or a political subdivision of either thereof, against the Lessor or the rent

expressly reserved hereunder, as a substitute in whole or in part for taxes assessed or imposed by said City or State or said political subdivision on land and buildings or on land or buildings, the Lessee covenants (but to the extent only that such substitution so far as ascertainable relieves the Lessee from the payments hereinbefore provided for in paragraph '9' hereof of taxes assessed as aforesaid upon the demised premises) to pay and discharge such tax or excise on rents or other tax before any fine, penalty, interest or cost may be added thereto for the non-payment thereof, and the Lessee covenants to furnish the Lessor, within thirty days after the date when the same is payable as in this paragraph provided, with official receipts or other evidence satisfactory to the Lessor that such tax or excise on rents or other tax has, to the extent aforesaid, been paid. Nothing herein contained, however, shall be construed to require the Lessee to pay any franchise, estate, inheritance, succession, capital levy or transfer tax of the Lessor growing out of or connected with this Lease or the Lessor's right in the demised premises, or any income, excess profits or revenue tax. The parties further agree that with respect to the tax year in which the Lessee first becomes liable for the payment of real estate taxes, assessments and other charges, as provided in paragraph '9' hereof, the Lessee shall be liable only for such proportion of such real estate taxes, assessments or other charges which shall be payable with respect to the demised premises as the part of said year during which the Lessee is liable therefor, shall bear to the whole of said year. If the Lessor shall have paid more than its proportionate share, the Lessee shall pay the excess to the Lessor; if the Lessor has not paid its proportionate share, such taxes, assessments and charges shall be paid by the Lessee and deducted from any subsequent payment of rent.

LESSOR'S INDEMNIFICATION

11. The Lessor shall be responsible for any injury or damage to persons or property occasioned by the construction of the premises herein demised, while the work is in progress or before the completed premises are delivered to Lessee, and Lessor hereby expressly agrees to save and hold the Lessee harmless from or on account of any loss, claims, costs, expenses, liability or suit whatsoever arising out of such construction and not attributable to the negligence of the Lessee or of its agents, and not the result of any act or omission by the Lessee, its agents, servants, employees, licensees or visitors, and the Lessor agrees to defend any suits with respect thereto at Lessor's own cost and expense.

INSURANCE

12. The Lessee shall, at the Lessee's sole cost and expense, keep all buildings erected on the demised premises insured for the benefit of the Lessor, or Mortgagee, or both, and the Lessee, as their respective interests may appear, against loss or damage by fire and against such other risks as are covered by endorsement commonly known as supplemental or extended coverage, in solvent insurance companies authorized and licensed to issue such policies in the State of New Jersey and to maintain such insurance at all times during the term of this lease, in an amount not less than the full insurable replacement value of said buildings and improvements. In the event of disagreement as to the amount of such insurance, said value is to be determined by American Appraisal Company, and the cost of said appraisal to be borne by Lessor and Lessee equally.

The Lessee shall also, at the Lessee's sole cost and expense, but for the mutual benefit of the Lessor and the Lessee, maintain (a) general public liability insurance against claims for personal injury, death or property damage occurring upon, in or about the demised premises or the elevators or any escalators therein and on, in or about the adjoining streets and passageways, such insurance to afford protection to the limit of not less than $100,000 in respect of injury or death of a single person, and to the limit of not less than $300,000 in respect of any one accident, and to the limit of not less than $50,000 in respect of property damage; (b) steam boiler insurance on all steam boilers, pressure boilers or other such apparatus as the Lessor may deem necessary to be covered by such insurance and in such amount or amounts as the Lessor may, from time to time, reasonably require; and (c) plate glass insurance.

All policies of insurance shall provide that the proceeds thereof shall be payable to the Lessee and Lessor, or Mortgagee, or both, as their respective interests may appear. Such policies or certificates thereof shall be delivered to the Lessor, accompanied by satisfactory evidence that the premiums thereon have been paid.

The premiums on all insurance policies in force at the ermination of the initial term or any renewal term of this lease, shall be apportioned as between the Lessor and the Lessee in such manner that the Lessor shall reimburse the Lessee for that portion of the aggregate premiums unearned on all such policies in force at the expiration of the initial term or of any renewal term of this Lease.

In the event that at any time the said buildings erected on the demised premises and improvements thereon shall be damaged or partially destroyed by fire, or otherwise, the Lessee shall forthwith cause the damage to be repaired with all reasonable dispatch and shall be entitled to obtain from the Lessor, Or Mortgagee, or both, any sum received as insurance for such damages as and if it is paid over to the Lessor, or Mortgagee, or both, to be held by Lessor or Mortgagee or both, as a trust fund for such repairs. In the event that said buildings and improvements shall be so damaged by fire or otherwise that repairing or restoration will be impracticable, Lessee shall forthwith demolish and remove the ruins and proceed with the erection and construction of suitable buildings and improvements on the demised premises, at its own cost and expense, and said new buildings and improvements to be erected on the demised premises shall be at least equal in value to the buildings and improvements destroyed. The Mortgagee, if any, and the Lessor, shall, from time to time, as certified by Lessee's architect or contractor, and to an extent not exceeding 80% of the value of the work, labor and material entering into the erection of said new buildings and improvements, pay over to Lessee the proceeds of the insurance so held by Lessor, or Mortgagee, or both, and the balance of said proceeds shall be paid over to Lessee after the buildings and improvements are fully completed. If the insurance money or other proceeds so held by the Mortgagee, if any, and Lessor, shall be insufficient to pay the entire cost of such work, Lessee agrees to pay the deficiency without any credits, against rent, provided, however, that no settlement of any claim for loss or damage shall be made by the Mortgagee, if any, and Lessor, with any insurance company without the written consent of Lessee. Any proceeds remaining upon the completion of the work or

otherwise, to be paid to the Lessee, shall be paid to the Lessee by the Mortgagee, if any, and Lessor. The lessee shall not be entitled to or claim any abatement or diminution of rent or other charges hereunder, or any portion thereof, and no compensation shall be claimed or allowed to the Lessee for any damage to or destruction of the premises or any part thereof.

SURRENDER

13. Lessee agrees that it will not use the demised premises in such a way to cause depreciation of the buildings or improvements thereon beyond the normal use in its business; that Lessee will keep said demised premises free from nuisance and that at the end of the initial term or of any renewal term thereof, Lessee will deliver up said demised premises and any improvements thereon and appurtenances thereto, except shelving, partitions, fixtures, machinery, equipment and facilities installed by, placed upon or belonging to Lessee (which Lessee shall have the right to remove), in as good order and condition as when entered upon, reasonable use and ordinary wear and tear excepted, and to peaceably and quietly surrender possession thereof to Lessor, upon the termination of this Lease, either by expiration of the term thereof, or by forfeiture or otherwise.

LESSEE'S ALTERATIONS

14. Lessee shall have the right to make any alterations, repairs, or additions to, in or upon the demised premises, except alterations which would injure the structure of the buildings or render them unfit for general use. In the event that Lessee desires to make structural alterations, Lessor's written consent to such structural alterations shall be required and shall not be unreasonably withheld.

MECHANICS' LIENS

15. Lessee will not permit any mechanic's, laborer's or materialmen's liens to stand against the demised premises for any labor or material furnished to Lessee or claimed to have been furnished to Lessee in connection with work of any character performed or claimed to have been performed on the leased premises by or at the direction or sufferance of Lessee. The Lessee shall have the right to contest the validity or amount of any such lien or claimed lien, and shall, if demanded by Lessor, give reasonable security to the Lessor to insure payment thereof and prevent any sale, foreclosure or forfeiture of the premises by reason of such non-payment, provided that such security need not exceed one and one-half times the amount of such lien or claimed lien. On final determination of the lien or claim for lien, the Lessee shall promptly pay any judgment rendered with all proper costs and charges, and shall have the lien released or judgment satisfied at Lessee's own expense.

RIGHT TO SUBLET AND ASSIGN

16. It is covenanted and agreed that the Lessee shall have the right to assign this Lease or sublet the demised premises, or any part thereof, for any lawful use, upon condition that in the event of such assignment or subletting, Lessee shall remain primarily liable for payment of the rent stipulated herein and for the performance of the terms and conditions of this Lease undertaken to be kept and performed by the Lessee, and that the assignee of this Lease shall assume and undertake to keep, observe and perform all the terms, covenants and conditions of this Lease. Notice in writing of any assignment accompanied with duly executed copy of agreement of assignment shall be delivered to Lessor forthwith.

COMPLIANCE WITH LAWS

17. The Lessee shall promptly execute and comply

with all statutes, ordinances, rules, orders, regulations, and requirements of the Federal, State and City Government and of any and all their departments and bureaus applicable to said premises, for the correction, prevention and abatement of nuisances, violations or other grievances, in, upon or connected with said premises during said term; and shall also promptly comply with and execute all rules, orders and regulations of the Board of Fire Underwriters for the prevention of fires, at its own cost and expense.

In case the Lessee shall fail or neglect to comply with the aforesaid statutes, ordinances, rules orders, regulations and requirements, or any of them, or in case the Lessee shall fail or neglect to make any necessary repairs after thirty days' written notice thereof from Lessor, then the Lessor or its agents may enter said premises and make said repairs and comply with any and all of the said statutes, ordinances, rules, orders, regulations or requirements, at the cost and expense of the Lessee, and in case of the Lessee's failure to pay therefor, the said cost and expense shall be added to the next month's rent and be due and payable as such, or the Lessor may deduce the same from the balance of any sum remaining in the Lessor's hands. This provision is in addition to the right of the Lessor to terminate this Lease by reason of any default on the part of the Lessee.

Lessee shall have the right, at its own cost and expense, to contest or review by legal proceedings, the validity or legality of any such statute, ordinance, rule, order, regulation, or requirement, and during such contest Lessee may refrain from complying therewith, provided that such contest by Lessee is in good faith.

DEFAULT

18. In the event that Lessee shall default in the payment of rent, or shall violate or omit to perform any of

the other provisions in this Lease contained, then this Lease, if Lessor shall so elect, shall terminate, cease and come to an end as follows:

If the default be in the payment of rent, fifteen days after written notice of such election by Lessor, sent by the latter to Lessee, unless Lessee pay the rental within said fifteen days.

If the default be in the violation or omission to perform any of the other provisions, obligations or covenants of this Lease, thirty days after notice of such election by Lessor, sent by the latter to Lessee, unless Lessee shall have completely removed or shall have started in good faith to cure the default in question within said thirty days.

RE-ENTRY

19. If this Lease be terminated by Lessor as hereinbefore provided, or in case Lessee vacates or abandons premises before expiration of the term hereof, Lessor's agent or representative may re-enter said premises by summary proceedings or by force, or otherwise, without being liable for prosecution thereof, or civil liability, take possession of said premises, and remove all persons therefrom, and relet the same and receive the rent therefor, applying the same first to the payment of such expense, charges or costs for conditioning and repairing demised premises and all other charges of the Lessor as provided in this Lease, and then to the rent payable under this Lease, and the fulfillment of Lessee's covenants hereunder; the balance, if any, to be paid to Lessee, who shall remain liable for any deficiency.

BANKRUPTCY

20. It is covenanted and agreed that in the event of adjudication in bankruptcy of Lessee, either voluntary or involuntary, assignment for benefit of creditors, the appointment

of a receiver or any insolvency proceeding of Lessee, this Lease may be declared forfeited and void, at the option of the Lessor or the Lessor's assigns, two days after Lessor shall have served written notice upon Lessee or upon the receiver in bankruptcy, unless the matter or thing giving Lessor the right to void same be remedied or terminated within said two days, and the right of re-entry is expressly reserved, and the Lessor may thereupon re-enter and take possession of said property and hold the same for the balance of the term in the Lessor's own right, without first demanding payment of rent due or to become due, and without demanding the possession of said property, and the benefits of this Lease shall not inure to the benefit of any third party by operation of law or otherwise. Anything herein contained to the contrary notwithstanding, Lessor shall not exercise its option to terminate hereunder and shall not take any steps hereunder based upon the filing of any involuntary petition or application in bankruptcy, insolvency or re-organization, or for the appointment of a receiver for a period of 120 days, in order to enable Lessee to cause a dismissal or withdrawal of such petition or application or the removal of any receiver or trustee appointed as a result thereof, provided that all other terms of this Lease are punctually performed.

WAIVER AND BINDING ON ASSIGNS

21. It is further mutually covenanted and agreed between the parties hereto that no waiver of any covenant, agreement, stipulation or condition of this Lease shall be construed to be a waiver of any succeeding breach of the same covenant, agreement, stipulation or condition, or of a breach of any other covenant, agreement, stipulation or condition, that the payment by Lessee, or the receipt by the Lessor of rent with knowledge of the breach by the other party of any covenant hereof shall not be deemed a

waiver of such breach; and, further, that all covenants, stipulations, conditions and agreements herein contained shall run with the land and bind and inure to the benefit of the legal representatives, heirs, successors and assigns of the parties hereto and grantees of the Lessor, except that no assignment by Lessee in violation of the provisions of this Lease shall vest any rights in the assignee.

HOLD-OVER

22. It is agreed, however, without in any manner impairing the covenants of the Lessee or the remedies of the Lessor in the preceding paragraph, that should the Lessee hold over in possession after the expiration of the original term or of any extended term, such holding over shall not be deemed to extend the term or renew the lease, but thenceforth a month-to-month tenancy shall be thereby created upon the same covenants and conditions as are herein set forth, at the monthly rate of rental in effect during the last month of the previous term, until terminated at the end of any rental month by either party, by serving upon the other not less than thirty days' previous notice in writing of such termination.

QUIET ENJOYMENT

23. Lessor hereby agrees and warrants that it will have a fee simple title, subject to Zoning Ordinances and other usual conditions of title, to the demised premises hereby leased, and that it has the legal right to make the agreements and covenants contained herein; that the buildings to be erected upon the demised premises shall cover not less than approximately 35,000 square feet; that said buildings, structures and improvements shall be constructed in accordance with all laws, orders, ordinances, rulings, decrees, rules and regulations of the Federal, State, County and Municipal and other governmental authorities and agencies having jurisdiction thereof; that at the date of

the commencement of the term hereof, the demised premises shall be free and clear of any and all mortgages (except as permitted under paragraph '24' hereof), liens and encumbrances of any kind whatsoever, and any and all machinery and equipment in said demised premises and any appurtenances thereto shall be free and clear of any and all mortgages, liens, conditional sales agreements and encumbrances; and Lessor covenants and agrees that Lessee, upon paying the rent herein provided to be paid and complying with all the terms and conditions of this Lease, shall and may peaceably and quietly, have, hold and enjoy the demised premises for the term hereof and any extension thereof and for the use aforesaid.

MORTGAGES

24. It is covenanted and agreed that Lessor reserves the right to mortgage the demised premises and that such mortgage shall be a prior lien to this Lease, provided that the total of annual interest and principal payments of such mortgage shall not exceed 95% of the rate of the annual rental herein reserved.

DEFAULT UNDER MORTGAGES

25. If any payment required to be made under the terms of any mortgage which may be placed on the demised premises is not paid when the same becomes due and payable, and not before the termination of any extension period for payment, if any, then, Lessee may at its option make any such payment and may deduct the amount thereof from the next installment or installments of rent due under this Lease.

MODIFICATIONS IN WRITING

26. Any and all agreements hereafter made by the parties hereto to amend, change, revise, extend or discharge this Lease in whole or in part and on one or more occasions, shall not be invalid or unenforcible because of the lack of consideration, provided that such agreement or agreements to amend, change, revise, extend or discharge said Lease

shall be in writing and executed by the parties hereto.

NOTICES

27. Service of any notice given hereunder or otherwise shall be sufficient if given by registered mail, postage prepaid by Lessor to Lessee, at 3 West 57th Street, New York City; by Lessee to Lessor, at #790 Queen Anne Road, Teaneck, New Jersey, the place herein provided for the payment of rent, or such other places that may be designated by the respective parties hereto, in writing.

OPTION TO RENEW

28. At the expiration of the term specified in paragraph '3' hereof, provided that Lessee shall not then be in default, said term shall be extended, at the option of the Lessee, for an additional period of ten years then next ensuing, on the same terms, covenants and conditions as herein set forth, except that the net total rental for said renewal term shall be $75,000 at the rate of $7,500 per year, payable in equal monthly installments of $625, provided that Lessee give to Lessor six months' notice prior to the expiration of the initial twenty year term of Lessee's desire so to extend said term.

At the expiration of the term specified in paragraph '3' hereof, and its renewal under paragraph '28' hereof, provided that Lessee shall not then be in default, said term shall be extended, at the option of Lessee, for an additional period of ten years then next ensuing, on the same terms, covenants and conditions as herein set forth, except that the net total rental for said renewal term shall be $75,000 at the rate of $7,500 per year, payable in equal monthly installments of $625, provided that Lessee give to Lessor six months' notice prior to the expiration of the extended ten year option term as provided in said paragraph '28' hereof, of Lessee's desire so to extend said term.

OPTION TO BUY

29. Lessor agrees that, at any time after the period of six months, beginning with the date of the commencement of the term hereof as herein defined, but not later than eight

months after said beginning date, the Lessee only, shall have the option to purchase the demised premises at the price of $289,953.00, by giving Lessor notice in writing of its intention to so purchase, together with a payment on account of $28,995.00 and providing for a closing date of passing of title of not later than sixty days from the date of receipt by the Lessor of said notice to purchase by Lessee. Any conveyance upon the exercise of this option shall be by full warranty deed of Lessor, subject to covenants and restrictions of record in respect to the demised premises and to the terms and conditions of this Lease, provided, however, that Lessee shall take subject to and assume any mortgage placed upon the demised premises by Lessor, pursuant to paragraph '24' of this Lease, provided that the unpaid principal of the mortgage or mortgages covering the demised premises at said date shall not exceed $188,500.

LESSOR'S RIGHT TO INSPECT

30. Lessor shall have the right and privilege to inspect the premises at reasonable hours, from time to time, for the purpose of determining the condition of said premises. The Lessee also agrees to permit the Lessor or its agents to show the premises to persons wishing to purchase the same; and the Lessee further agrees that on and after six months next preceding the expiration of the term hereby granted, in the event Lessee shall not have served notice of its election to exercise the option hereinabove provided for extend the term, the Lessor or its agents shall have the right to place notices on the front of said premises, or any part thereof, offering the premises "To Let" or "For Sale", and the Lessee hereby agrees to permit the same to remain thereon without hindrance or molestation.

RESTRICTIONS

31. Lessor agrees that it will not, directly or indirectly, or by or through any person, firm or corporation

in which Lessor has any interest or in which the stockholders of Lessor have any interest, sell or rent, or cause to be sold or rented, or permit the use of any property or part thereof, which Lessor owns or has title to, in whole or in part, within a radius of 500 feet from the demised premises for a brewery, distillery, bakery or other yeast-using business, re-conditioning of used bakery or fermentation equipment, and will not sell or rent, or cause to be sold or tented or permit the use of any property or any part thereof, which Lessor owns or has title to, in whole or in part, within a radius of 500 feet from the demised premises for residences. Anything herein contained to the contrary notwithstanding, the above covenant shall not bind or affect the premises to the east of the demised premises comprising approximately 6-1/2 acres of land fronting on North Street for a distance of approximately 700 feet and running in a southerly direction to the presently existing railroad spur and now under contract of sale to Julius Wile Sons & Co., Inc.

RAILROAD SIDING

32. The Lessee shall have the right at any time during the original or renewal terms hereof, at its own cost and expense, to construct and maintain a railroad siding from the demised premises to the present and existing railroad spur, situate on lands immediately adjacent to the demised premises on the South thereof, and does further agree that at all times, during the existence of this Lease or any renewals thereof, to save harmless the Lessor against any cost, expense, damage, liability to person or property, in the use and operation of said railroad siding, and does further agree that any use of the presently existing railroad facilities shall be in common with any other users of said track.

DRAINAGE PIPE LINE

33. The Lessor agrees to install, or cause to be installed, without cost to Lessee, a 12 inch pipe over

and across the 10 foot easement referred to in the description of the demised premises, running from the southwesterly corner of the demised premises in a westerly direction to drainage ditch bordering on Green Street, The Lessee does hereby agree and assume the cost of maintenance and repair of said pipe line.

OPTION TO TERMINATE DURING RENEWAL TERMS

34. Anything herein contained to the contrary notwithstanding, the Lessor agrees that if the said buildings erected on the demised premises and improvements thereon shall be substantially damaged or destroyed by fire at any time during the last seven years of the first optional renewal term or the entire period of the second optional renewal term provided for herein, the Lessee shall have the option of terminating this lease and in such event the term hereof shall cease, terminate and come to an end at the date set forth in such notice of termination with the same force and effect as if said date were the date herein set forth for the termination of this Lease, and in the event of such termination, the Lessee shall have no obligation of any kind to reconstruct, repair or to do any further act with respect to said buildings, provided, however, that Lessee shall have the obligation to turn over to Lessor the proceeds of any insurance policies covering said buildings in which Lessor may have an interest.

RESTRICTION ON USE FOR BREWERY, ETC.

35. Anything herein contained to the contrary notwithstanding, Lessee agrees that it will not assign, sublet or permit the use of the demised premises for a brewery, distillery or other yeast-using business or reconditioning of used bakery or fermentation equipment or for residential purposes.

WATER DAMAGE

36. Anything herein contained to the contrary notwithstanding, the Lessee covenants that it shall save harmless the Lessor from any loss or damage to the demised

premises and any personal property located thereon resulting from water damage, provided, however, that Lessor shall fully comply with all of its obligations hereunder.

BROKERAGE

37. It is expressly understood and agreed by and between the parties hereto, that no real-estate brokers have been instrumental in negotiations of the parites hereto in connection with the terms and conditions of the foregoing Lease.

IN WITNESS WHEREOF, the parties hereto, have caused these Presents to be signed by their respective Presidents, attested by their respective Secretaries, and their respective Official Seals to be hereunto affixed, the day and year first above written.

ALEXANDER SUMMER, INC.

ATTEST:

By

Muriel Sullivan
Secretary

Alexander Summer
President

PEPSI-COLA METROPOLITAN BOTTLING COMPANY, INC.

ATTEST:

By

James W. Robertson
Asst. Secretary

Vice-President

STATE OF NEW JERSEY)
) SS
COUNTY OF BERGEN)

Be it remembered, that on the 6th day of December, in the year of our Lord one thousand nine hundred and forty-nine, before me, a Notary Public of New Jersey, personally appeared Muriel Sullivan, to me known, who, being duly sworn according to law, on her oath doth depose and say: That she is the Secretary of Alexander Summer, Inc., a corporation organized under the laws of the State of New Jersey, the Lessor in the foregoing agreement named; that the seal affixed to the said agreement is the corporate seal of the said corporation; that Alexander Summer is the President of the corporation; that she saw the said Alexander Summer as such President sign the said agreement and heard him declare that he signed, sealed and delivered the same as the voluntary act and deed of the said Alexander Summer, Inc., by virtue of a resolution of its Board of Directors; that this deponent signed her name at the same time as attesting witness to the execution thereof.

Subscribed and sworn before me, the day and year above written.

Gladys B. Fagan
Notary Public of New Jersey

My Commission Expires May 21st, 1951

STATE OF NEW YORK)
) SS
COUNTY OF NEW YORK)

Be it remembered, that on the 6th day of December, in the year of our Lord one thousand nine hundred and forty-nine, before me, Herta L. Ryan personally appeared Thomas E. O'Callaghan to me known, who, being duly sworn according to law, on his oath doth depose and say: That he is the Vice-President of Pepsi-Cola Metropolitan Bottling Company, Inc., a corporation organized under the laws of the State of New Jersey, the Lessee in the foregoing agreement named; that the seal affixed to the said agreement is the corporate seal of the said corporation; that Thomas E. O'Callaghan is the Vice-President of the corporation; that he saw the said Thomas E. O'Callaghan as such Vice-President sign the said agreement and heard him declare that he signed, sealed and delivered the same as the voluntary act and deed of the said Pepsi-Cola Metropolitan Bottling Company, Inc. by virtue of a resolution of its Board of Directors; that this deponent signed his name at the same time as attesting witness to the execution thereof.

Subscribed and sworn before me, the day and year above written.

Herta L. Ryan
Notary Public

My Commission Expires March 30, 1950

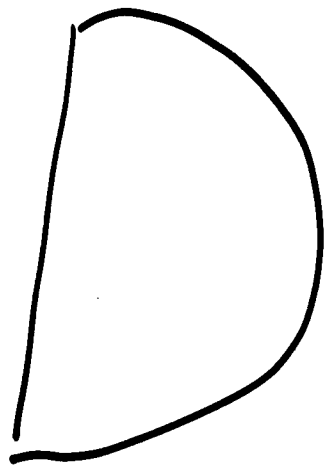


Exhibit D in response to question 2

THIS AGREEMENT, made and entered into, on this 23rd day of August, 1950, by PEPSI-COLA COMPANY, a corporation of the State of Delaware, having its principal Office at 3 West 57th Street, New York, N.Y., and ALEXANDER SUMMER, INC., a corporation of the State of New Jersey, having its principal Office at 790 Queen Anne Road, Teaneck, New Jersey,

W I T N E S S E T H :

WHEREAS, on December 6, 1949, the said Alexander Summer, Inc., made and entered into a certain Lease Agreement, as Lessor, with PEPSI-COLA METROPOLITAN BOTTLING COMPANY, INC., a New Jersey Corporation, as Lessee, for demised premises, situate on the southwesterly line of North Street, in the Borough of Teterboro, County of Bergen, and State of New Jersey, and

WHEREAS, on December 6, 1949, the said Pepsi-Cola Company, as the parent company of said Pepsi-Cola Metropolitan Bottling Company, Inc., made and entered into a certain performance and rental guarantee agreement with said Alexander Summer, Inc. for said Lease, and

WHEREAS, on the 23rd day of August, 1950, the said Alexander Summer, Inc. and the said Pepsi-Cola Metropolitan Bottling Company, Inc., made and entered into an Agreement, changing, amending and otherwise modifying part of the terms and provisions of said Lease, increasing the rentals and option price as therein more specifically provided, and

WHEREAS, it is the intention of the said Pepsi-Cola Company, to further extend its said performance and rental guarantee agreement to also include said agreement, dated August 23, 1950, changing, amending and otherwise modifying said Lease between the said Alexander Summer, Inc.

and the said Pepsi-Cola Metropolitan Bottling Company, Inc.,

NOW THEREFORE, in consideration of the sum of One Dollar ($1.00) and other valuable considerations by each to the other in hand paid, receipt whereof is hereby acknowledged:-

IT IS COVENANTED AND AGREED by PEPSI-COLA COMPANY, that all of the terms and conditions as contained in a certain Performance and Rental Guarantee Agreement, made by and between the parties hereto, dated December 6, 1949, above referred to, are hereby re-iterated and made a part hereof, and further, the said Pepsi-Cola Company, does hereby guarantee performance and rentals as reserved in said Lease Modification Agreement, dated August 23, 1950, made by and between the said Alexander Summer, Inc. and Pepsi-Cola Metropolitan Bottling Company, Inc. above referred to.

THIS AGREEMENT shall be binding upon the successors and assigns of the said PEPSI-COLA COMPANY.

IN WITNESS WHEREOF, the said PEPSI-COLA COMPANY, has caused these Presents to be signed by its President, attested by its Secretary, and its Official Seal to be hereunto affixed, the day and year first above written.

PEPSI-COLA COMPANY

By Alfred N. Steele
President

ATTEST:
Milward W. Martin
Secretary

STATE OF New York :
COUNTY OF New York: SS

BE IT REMEMBERED, That on this 28th day of August, Nineteen Hundred and Fifty, before me, the subscriber, A Notary Public personally appeared Milward W. Martin who being by me duly sworn, on his oath, says that he is the Secretary of PEPSI-COLA COMPANY, the corporation named in the foregoing Instrument; that he well knows the corporate seal of said Corporation; that the Seal affixed to said Instrument is the corporate seal of said Corporation; that the said Seal was so affixed and the said Instrument signed and delivered by Alfred N. Steele who was at the date thereof, the President of said Corporation, in the presence of this Deponent, and said President, at the same time, acknowledged that he signed, sealed and delivered the same as is voluntary act and deed, and as the voluntary act and deed of said Corporation, by virtue of authority from its Board of Directors, and that Deponent, at the same time, subscribed his name to said Instrument, as an attesting witness to the executionthereof.

Sworn and subscribed to before :
me at [illegible] :
the day aforesaid. : Milward W. Martin

[illegible]

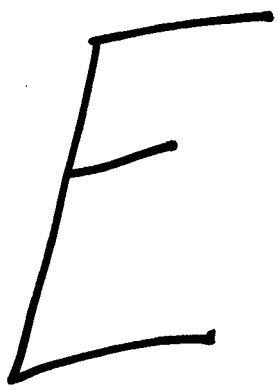


Exhibit E in response to question ____

THIS AGREEMENT, made and entered into this 3rd day of October, 1951, By and Between THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, a corporation of the State of New Jersey, (hereinafter designated as "Lessor", and PEPSI-COLA METROPOLITAN BOTTLING COMPANY, INC., a corporation of the State of New Jersey, (hereinafter designated as "Lessee").

WITNESSETH:

WHEREAS, Alexander Summer, Inc., a corporation of the State of New Jersey, and Lessee executed an indenture of lease, bearing date the Sixth day of December, 1949, covering premises situated on the southerly side of North Street in the Borough of Teterboro, County of Bergen and State of New Jersey, in connection with which a certain Guarantee Agreement dated December 6, 1949, was executed by Pepsi-Cola Company, and

WHEREAS, said indenture of lease was modified by Agreement dated August 23, 1950, and

WHEREAS, Alexander Summer, Inc. did assign to The Prudential Insurance Company of America all its right, title and interest in and to the aforesaid indenture of lease, Guarantee Agreement and Modification Agreement by assignment dated September 1, 1950, and

WHEREAS, Lessee represents that it has completed construction of an addition to the building located on the demised premises in accordance with plans submitted to Lessor at an actual cost of $56,000.00, and

WHEREAS, Lessor has agreed to reimburse Lessee to the extent of the aforesaid actual cost of construction of said addition, provided the aforesaid lease dated December 6, 1949, as modified August 23, 1950, be further modified as herein after set forth,

NOW, THEREFORE, in consideration of One Dollar ($1.00) and other valuable considerations, by each to the other in hand paid,

receipt whereof is hereby acknowledged:-

IT IS MUTUALLY COVENANTED AND AGREED, that certain terms and provisions of the aforesaid Lease dated December 6, 1949, as modified by agreement dated August 23, 1950 are hereby changed, amended and otherwise modified as follows:-

That part of Paragraph 3 of said lease which was amended in agreement dated August 23, 1950 to read "at a total net rental of $385,400.00 for the term, at the rate of $19,270.00 per year, such rental to be paid by Lessee to Lessor, in equal monthly installments of $1,605.84" is hereby specifically changed, amended and otherwise modified as follows:

"at a total net rental of $460,260.19 for the term, at the rate of $23,192.80 per year, such rental to be paid by Lessee to Lessor, in equal monthly installments of $1,932.75 commencing July 1, 1951 and monthly thereafter to the end of the twenty year term set forth in said lease"

Paragraph 11 of said lease shall be amended by the inclusion of the following additional sentence:

"The Lessee shall be responsible for any injury or damage to persons or property occasioned by the construction of the addition to the building on the demised premises, and Lessee hereby expressly agrees to save and hold the Lessor harmless from or on account of any loss, claims, costs, expenses, liability or suit whatsoever arising out of such construction, and Lessee agrees to defend any suit with respect thereto at Lessee's own cost and expense."

That part of Paragraph 28 of said lease which was amended in agreement dated August 23, 1950 to read "except that the net total rental for said renewal term shall be $77,270.00 at the rate of $7,727.00 per year payable in equal monthly installments of $643.92" is hereby specifically changed, amended and otherwise modified as follows:-

"except that the net total rental for said renewal term shall be

$92,614.00 at the rate of $9,261.40 per year payable in equal monthly installments of $771.78" This amendment shall be construed to apply to each of the two renewal options set forth in said Paragraph 28.

THAT all other terms and conditions of said lease, as amended by agreement dated August 23, 1950, except as to those parts hereby changed, amended and otherwise modified, as hereinabove set forth, shall remain unaltered and in full force and effect, and are hereby ratified and confirmed.

This agreement shall be binding upon the respective successors and assigns of the parties hereto.

IN WITNESS WHEREOF, the Parties hereto, have respectively caused their corporate seals to be hereunto affixed and these presents to be signed by their respective duly authorized officers, the day and year first above written.

Form

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

Attest: _____ Assistant Secretary

D. Freeston

By: _____ Vice President

S. W. TOOLE

PEPSI-COLA METROPOLITAN BOTTLING COMPANY, INC.

Attest: _____ ~~Assistant~~ Secretary

By: _____ Vice President

We hereby consent to the foregoing modification agreement and hereby acknowledge and declare that all the terms and conditions of our Guarantee Agreement dated December 6, 1949, with respect to the lease mentioned in the foregoing agreement, shall continue in full force and effect.

PEPSI-COLA COMPANY

Attest: _____ Assistant Secretary

By: _____ Vice-Pres.

STATE OF NEW YORK :
SS
COUNTY OF NEW YORK :

BE IT REMEMBERED, That on this 3rd day October, Nineteen Hundred and Fifty One, before me, the Subscriber, Rosalind K. Roth personally appeared James W. Robertson who being by me duly sworn, on his oath, says that he is the Secretary of PEPSI-COLA METROPOLITAN BOTTLING COMPANY, INC., the Lessee named in the foregoing Instrument; that he well knows the corporate Seal of said Corporation; that the Seal affixed to said Instrument is the corporate Seal of said Corporation; that the said Seal was so affixed and the said Instrument signed and delivered by Willard W. Martin, who was at the date thereof, the Vice-President of said Corporation, in the presence of this Deponent, and said Vice-President, at the same time, acknowledged that he signed, sealed and delivered the same as his voluntary act and deed, and as the voluntary act and deed of said Corporation, by virtue of authority from its Board of Directors, and that Deponent, at the same time, subscribed his name to said Instrument, as an attesting witness to the execution thereof.

Sworn and subscribed to before :
me at New York, N. Y. ;
the date aforesaid. :

James W. Robertson

Rosalind K. Roth

STATE OF NEW JERSEY:
SS
COUNTY OF ESSEX :

BE IT REMEMBERED, That on this 11th day of October, Nineteen Hundred and Fifty One, before me, the Subscriber, L. E. PEARSON NOTARY PUBLIC OF NEW JERSEY personally appeared Wm. D. Freeston, who being by me duly sworn, on his oath, says that he is the Assistant Secretary of THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, the Lessor named in the foregoing instrument; that he well knows the corporate Seal of said Corporation; that the Seal affixed to said Instrument is the corporate Seal of said Corporation; that the said Seal was so affixed and the said Instrument signed and delivered by

S. W. TOOLE who was at the date thereof, the Vice President of said Corporation, in the presence of the Deponent, and said Vice President, at the same time, acknowledged that he signed, sealed and delivered the same as his voluntary act and deed, and as the voluntary act and deed of said Corporation, by virtue of authority from its Board of Directors, and that Deponent, at the same time, subscribed his name to said Instrument, as an attesting witness to the execution thereof.

Sworn and subscribed to before :
me at Newark, New Jersey :
the date aforesaid. :

Wm. D. Freeston

L. E. Pearson
Notary Public of New Jersey

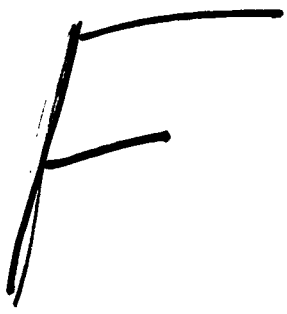


Exhibit F in response to question ____

CONTRACT OF SALE

by and between

PEPSI COLA METROPOLITAN BOTTLING CO., INC., as Seller

and

HARCO INDUSTRIES, INC., as Purchaser

March 6, 1992

TABLE OF CONTENTS

CONTRACT OF SALE

THIS CONTRACT OF SALE (the "Contract") is made this day of March, 1992 by and between PEPSI COLA METROPOLITAN BOTTLING CO., INC., a New Jersey corporation, having an address at 2 Empire Boulevard, Moonachie, New Jersey 07074 (the "Seller") and HARCO INDUSTRIES, INC., a New Jersey corporation, having an address at 31 Schrieffer Street, South Hackensack, New Jersey 07606 (the "Purchaser").

IN CONSIDERATION of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. Conveyance of Property. Seller shall sell and convey to Purchaser and Purchaser shall purchase from Seller, all in accordance with the terms of this Contract, fee simple title to the real property and improvements thereon located in the Borough of Teterboro, County of Bergen and State of New Jersey, commonly known as 350 North Street and being known and designated as Lot 11, Block 303 on the Tax Map of the Borough of Teterboro, all as more fully described on Exhibit A annexed hereto and made a part hereof (the "Property"), including all of the rights, benefits and privileges appurtenant to or benefiting the Property, including but not limited to the following:

(a) All right, title and interest of Seller, if any, in and to all easements, grants of right and appurtenances benefiting the Property, including those easements and rights accruing to the Property which were reserved over adjoining premises, along with all mineral, oil, gas and other substances on and under the

Property, as well as all development rights, air rights, water and water rights relating to the Property; and

(b) All of the right, title and interest, if any, of Seller in and to land lying in the bed of any street, road or avenue, open or proposed, in front of or adjoining the Property and in and to any strips and gores adjoining the Property or any part thereof, and in and to any award hereafter made or to be made with respect to the foregoing and in and to any damages to the Property by reason of the change of grade of any street made after the date hereof.

2. Title.

(a) Title to the Property shall be conveyed by Seller by Bargain and Sale Deed with Covenant Against Grantor's Acts. The title to be conveyed shall be free and clear of any liens and shall be marketable and insurable at regular rates by a title insurance company of Purchaser's choice authorized to do business in the State of New Jersey.

(b) Purchaser agrees to take title to the Property subject to the following (the "Permitted Exceptions"), provided that such exceptions would not render title unmarketable nor uninsurable at regular rates as herein provided nor interfere with the intended use of the Property as a warehouse and distribution center for consumer electronics products:

(i) Any state of facts an accurate survey would disclose;

(ii) Building and zoning regulations now or hereafter in force and applicable to the Property, provided same are not violated by the existing structures on the Property;

(iii) Current taxes and assessments not yet due and payable;

(iv) Added assessment imposed by the Borough of Teterboro pursuant to P.L. 1941, c. 397; and

(v) Covenants, restrictions, reservations and easements of record, provided same do not prevent the continued use of any structure located on the Property nor would result in a forfeiture or right of reversion if violated and further provided that no restrictions are violated;

(c) Purchaser shall order a title report with respect to the Property (the "Title Report") and a survey with respect to the Property (the "Survey"), if a survey is not made available to Purchaser by Seller. Seller shall deliver to Purchaser copies of all surveys and back title in its possession within ten (10) business days after the date hereof. Prior to the expiration of the Due Diligence Period (as hereinafter defined), Purchaser shall give Notice (as hereinafter defined) to Seller of any items shown on the Title Report and Survey, other than those which Purchaser has agreed to purchase subject to, which are material objections to or material defects in title. For purposes of this subparagraph 2(c), a material objection to or material defect in title is an encumbrance, restriction or encroachment, the existence of which

causes the Property to be legally or physically incapable of being used for the Purchaser's express intended use as set forth in subparagraph 2(b) hereof without a material interference in Purchaser's operations or the existence of the possibility of reversion. If Purchaser does not give Notice to Seller of the existence of material objections to or material defects in title prior to the expiration of the Due Diligence Period, Purchaser shall be deemed to have accepted title "as is". Seller shall have ten (10) business days after being notified of the existence of a material objection to or a material defect in title within which to agree to clear or remove the material objection or the material defect to title prior to Closing (as hereinafter defined) or to notify Purchaser as hereinafter provided of its inability to clear or remove such objection or defect. In the case of any material objection or material defect of title which can be removed or discharged solely by the payment of a liquidated sum of money, Seller shall be obligated to remove or discharge or cause to be removed or discharged such material objection or material defect or to provide an escrow of such funds as Purchaser's title insurance company may require in order to omit said exception from its policy of title insurance. In the event Seller is unable to remove any non-liquidated material objection or material defect after using its best efforts to remove same, then Seller shall give Notice to Purchaser, and Purchaser may give Notice to Seller within ten (10) business days of receipt of such notification terminating this

Contract in its entirety, without further obligation on the part of Seller or Purchaser other than the return to Purchaser of the Deposit (as hereinafter defined), together with any interest earned thereon, and the reimbursement for the cost of Purchaser's title search and examination and survey costs. If Purchaser does not give such Notice of termination to Seller within said ten (10) business days then Purchaser shall be deemed to have accepted title "as is". If Seller does not notify Purchaser within the aforementioned ten (10) business day period that Seller is unable to clear or remove such material objections or material defects, Seller shall be deemed to have agreed to remove the material objections or material defects prior to Closing.

(d) Purchaser may, at any time prior to giving Notice of its termination of this Contract pursuant to subparagraph 2(c) hereof, accept such title as Seller can convey, without reduction of the Purchase Price or any credit or allowance on account thereof or any claim against Seller, other than liens which may be removed by the payment of a liquidated sum of money. Purchaser may only elect to accept title hereunder with a credit or allowance for liens which may be removed by the payment of money after Seller has given Notice to Purchaser of its intention not to cause Purchaser's title insurance company to omit said liens as an exception to the policy of title insurance through a means other than the payment of a liquidated amount.

(e) Once the quality of title to the Property is accepted by Purchaser, Seller shall maintain such title until Closing, it being understood and agreed that Purchaser shall have no obligation to close title to the Property on and as of the Closing Date (as hereinafter defined) if the Title Report (including any supplemental or "run down" reports) discloses any exceptions to title, other than the Permitted Exceptions, which are not satisfied or removed by Seller on or before the Closing Date. If any such exceptions to title are disclosed and are not satisfied or removed by Seller on or before the Closing Date, Seller shall be in default under this Contract.

3. Closing of Title. Subject to Paragraph 20 hereof, the closing of title for transfer of the Property shall take place at the offices of Wolff & Samson, P.A., 5 Becker Farm Road, Roseland, New Jersey 07068 on or about April 15, 1992 subject further to the requirements set forth in Paragraph 11 hereof (the "Closing" or "Closing Date") as the same may be adjourned or advanced by the mutual agreement of the parties; provided, however, that Purchaser shall have no obligation to close title unless all conditions set forth herein for the benefit of Purchaser have been fully satisfied or waived by Purchaser.

4. Purchase Price.

(a) Purchaser shall pay to Seller, as and for the purchase price for the Property, the sum of $1,937,500 (the "Purchase

Price"), which sum shall be payable, subject to subparagraph 4(b) hereof, as follows:

(i) Upon execution of this Contract, by check, for which this is a receipt.....	$ 200,000.00 (the"Deposit")
(ii) Upon Closing of title, by certified check of Purchaser drawn upon a New Jersey bank, bank treasurer's check drawn upon a New Jersey bank, federal funds wire or attorney trust account check, the character of such payment to be at Purchaser's sole option (but with not less than three (3) business days' Notice from Purchaser to Seller of the option elected), subject to adjustment as provided for herein.....	$1,737,500.00
TOTAL PURCHASE PRICE.....	$1,937,500.00

(b) Pursuant to an escrow agreement of even date herewith by and among Seller, Purchaser and Seller's attorney, a copy of which is attached hereto as Exhibit B, the Deposit shall be held in escrow by Seller's attorney, as escrow agent, in an interest-bearing account until (i) the Closing of title, whereupon the Deposit, together with any interest earned thereon, shall be applied against the Purchase Price and released to Seller, (ii) the termination of the Contract pursuant to its terms, whereupon the Deposit, together with any interest earned thereon, shall be returned to Purchaser, or (iii) the wrongful failure by Purchaser to close title, whereupon the Deposit, together with any interest earned thereon, shall be released from escrow by the escrow agent

and retained by Seller as liquidated damages pursuant to Paragraph 30 hereof.

5. Conditions of Closing.

(a) Purchaser's obligation to pay the Purchase Price and to close title to the Property is expressly subject to the satisfaction of all of the terms and conditions of this Contract, including but not limited to the conditions set forth in this Paragraph 5. The conditions stated in this Paragraph 5 and elsewhere in this Contract are for the protection of Purchaser and accordingly Purchaser shall have the right, but not the obligation, to waive any and all of the conditions and proceed to Closing.

(b) Purchaser shall have the right to terminate this Contract, upon written notice to Seller thereof, if any of the following conditions are not satisfied, or waived by Purchaser, on or before the Closing Date or as otherwise provided for herein:

(i) Seller shall have delivered to the Purchaser a certificate dated the Closing Date signed by Seller certifying that the representations and warranties of Seller contained herein are true and correct as of the Closing Date with the same effect as though made on such date.

(ii) Seller shall have performed all material obligations and complied with all material covenants and material conditions required by this Contract to be performed or complied with by it on, or prior to, the Closing Date.

(iii) The terms and conditions of Paragraph 2 hereof with respect to title shall have been satisfied.

(iv) Seller shall have delivered to Purchaser a letter of non-applicability from NJDEPE (as hereinafter defined) with respect to the Property in accordance with subparagraph 11(f) hereof.

(v) Purchaser shall not have terminated this Contract pursuant to Paragraph 17 hereof.

(vi) Purchaser shall have obtained the approval as set forth in Paragraph 18 hereof.

(vii) The terms and conditions of Paragraph 11 hereof with respect to environmental matters shall have been satisfied.

6. Closing Documents.

(a) At or prior to the Closing, Seller shall deliver to Purchaser the following items with respect to the Property:

(i) Bargain and Sale Deed with Covenant against Grantor's Acts conveying fee title to the Property to Purchaser or its assigns, free and clear of all liens, claims and encumbrances, except for the Permitted Exceptions;

(ii) A standard form Affidavit of Title;

(iii) The letter of non-applicability from NJDEPE referred to in paragraph 11 hereof.

(iv) A corporate resolution of Seller authorizing Seller to execute and deliver the Deed, Affidavit of Title and

other documents required hereby and to consummate the transactions contemplated hereby and thereby.

(v) An assignment of any warranties, guarantees and any contract rights affecting the Property;

(vi) An assignment in form and substance satisfactory to Purchaser of all existing governmental approvals, permits, consents and/or licenses with respect to the Property, and those about which Purchaser notifies Seller on or before the expiration of the Due Diligence Period, together with copies of same, if any;

(vii) The realty transfer fee payable to the County of Bergen with respect to this sale by certified check or, at Seller's election, as a credit against the Purchase Price;

(viii) A certification, in the form attached hereto as Exhibit C, that Seller is not a "foreign person" as defined in Section 1445(f)(3) of the Internal Revenue Code of 1986;

(ix) The originals or photocopies of each current bill for real estate and other taxes, sewer rents and taxes and water rates;

(x) Seller's certification referred to in subparagraph 5(b)(i) hereof;

(xi) The escrow agreement referred to in subparagraph 11(b)(2)(B);

(xii) Such other documents as may be reasonably required by Purchaser's title insurance company; and

(xiii) Any other documents required to be delivered by Seller hereunder if not theretofore delivered;

(b) On the Closing Date, Purchaser shall deliver to Seller:

(i) The balance of the Purchase Price in the manner provided for herein;

(ii) The escrow agreement referred to in sub-paragraph 11(b)(2)(B);

(iii) The Absolute Release Regarding Environmental Matters referred to in subparagraph 11(e)(2)(B);

(iv) Any other documents required to be delivered by Purchaser hereunder if not theretofore delivered.

7. Condition of the Property.

(a) Subject to Paragraph 20 hereof, on the Closing Date (i) Seller shall, except as otherwise expressly provided herein, deliver the Property to Purchaser "as-is" in its present condition, subject to reasonable use, wear and tear between the date hereof and the Closing Date; and (ii) all systems servicing the Property, including but not limited to heating, electrical, plumbing and mechanical systems, shall be in working order and the roof shall be free of leaks.

(b) Seller represents that Seller has no knowledge of any violations of any governmental rules, laws or regulations with respect to the condition of the Property and further represents that it has received no notices of violation or non-compliance from any governmental body or agency or insurance company with respect to the condition of the Property which have not been corrected. In

the event any such notices of violation are received by Seller prior to Closing, Seller shall immediately upon receipt give Notice to Purchaser of same. In the event that the aggregate cost to cure all such noted violations exceeds $50,000.00, Purchaser may terminate this Contract upon Notice to Seller; provided, however, that the calculation of said aggregate cost shall not include the costs to cure any such violations which exist as a result of activities performed by Seller pursuant hereto with Purchaser's consent.

(c) Seller shall maintain all of its current fire and extended coverage and liability insurance on the Property.

8. Closing Adjustments. The following are to be apportioned as of the Closing Date:

(a) All real estate and personal property taxes payable in respect of or a lien upon the Property;

(b) Water rates and charges, sewer taxes and rents, and utility charges;

(c) Municipal assessments as provided for in Paragraph 14 hereof; and

(d) All other items customarily adjusted at real estate closings.

9. Closing Costs. Seller and Purchaser hereby acknowledge that all realty transfer fees required to be paid in connection with this transaction and any recording or filing fees with respect to the removal of any liens or encumbrances on the Property shall be paid by Seller. All recording fees for the deed, title insurance searches and premiums and fees for surveys, consultants and

other expenses in connection with Purchaser's Due Diligence Review shall be paid by Purchaser. Each party shall pay the fees of its respective counsel.

10. INTENTIONALLY OMITTED

11. Environmental Matters.

(a) Site Investigation and Cleanup.

(1) Purchaser and Seller shall undertake an environmental investigation ("Investigation") of the Property which will (i) ascertain Seller's compliance with Environmental Requirements (as hereinafter defined) and the presence of Regulated Materials (as hereinafter defined) on, in or beneath the Property and (ii) provide for remediation of Regulated Materials as may be required by applicable Federal, State or local authorities. Subject to the terms of this Paragraph 11, the Investigation may consist of up to two phases of work, denoted "Level 2" and "Site Remediation".

(2) The Purchaser, after review of the Level 1 Report, referenced in paragraph 11(e)(2)(D), has elected to instruct the Seller to negotiate with, through its counsel, and if satisfied engage, not later than ten (10) days from the date hereof, ESA (as hereinafter defined) or another environmental firm reasonably acceptable to Purchaser ("Level 2 Consultant") to conduct a Level 2 Investigation (as hereinafter defined). The Seller or its counsel shall not be obligated to execute a contract for services with a Level 2 Consultant unless such contract shall: (i) require the Level 2 Consultant to indemnify both Purchaser and Seller for all damages, claims, administrative fines, penalties,

directives or orders arising out of the Level 2 Consultant's acts or omissions; (ii) requires that the Level 2 Consultant maintain professional liability and comprehensive general liability insurance naming both Purchaser and Seller as additional insureds with a minimum $1,000,000 coverage and deliver to Seller and Purchaser an endorsement confirming same prior to commencing its work; (iii) require the Level 2 Consultant to immediately report evidence of the presence of a Release or Discharge of Regulated Materials solely to Seller; (iv) require that all notifications required by statute or regulation regarding such Discharge or Release shall be the sole responsibility and undertaking of Seller or its counsel; (v) require that the Level 2 Consultant provide Seller within five (5) days after completion of the Level 2 Investigation with copies of the Level 2 final written report ("Level 2 Report") together with its best estimate of the cost of Remediation of any Environmental Conditions at the Property required to bring the Property into compliance with Environmental Requirements ("Site Remediation"), including the preparation and implementation of any cleanup plan ("Cleanup Cost Estimate"); (vi) require the Level 2 Consultant to use its best efforts to complete the Level 2 Investigation prepared in accordance with Paragraph 11(a)(3) below not later than forty-five (45) days following the commencement of the Level 2 Investigation; (vii) require the Level 2 Consultant to implement the Level 2 Investigation within three (3) days after being retained; (viii) name the Purchaser as a third party beneficiary of the contract; and (ix) be reasonably acceptable to Purchaser.

(3) Within the ten (10) day period referred to in Paragraph 11(a)(2) above, the Level 2 Consultant shall ascertain the nature and extent of environmental issues identified in the Level 1 Report and the scope of work to be performed by the Level 2 Consultant shall be determined as hereinafter set forth. The scope of work for the Level 2 Investigation shall be prepared by Purchaser and the Level 2 Consultant, subject to review and comment of Seller and shall consist of physical inspections, sampling and/or testing of, at a minimum, any areas of potential concern identified in the Level 1 Report and such other areas of concern as requested by Purchaser (the "Level 2 Investigation").

(4) (A) Not later than three (3) days after its receipt of the Level 2 Report and the Cleanup Cost Estimate, Seller shall have the right, upon written notice to Purchaser, to terminate this Contract if the Cleanup Cost Estimate exceeds $400,000. If Seller has not terminated this Contract within the time period as aforesaid, Seller shall deliver the Level 2 Report and the Cleanup Cost Estimate to Purchaser within five (5) days of its receipt thereof. Subject to the terms of paragraph 11(b) herein, not later than five (5) days after its receipt of the Level 2 Report and Cleanup Cost Estimate, Purchaser shall have the right, upon written notice to Seller, to terminate this Contract if the Cleanup Cost Estimate exceeds $400,000. If the Cleanup Cost Estimate is $400,000 or less or if the Cleanup Cost Estimate exceeds $400,000 and neither party terminates this Contract as provided for hereinabove, then Purchaser and Seller shall proceed to close title as set forth in Paragraph 3 hereof and at the Closing, place in

escrow the amount of the Cleanup Cost Estimate and perform in accordance with paragraph 11(b)(2) herein.

(B) In the event that either Seller or Purchaser terminates this Contract in accordance with paragraph 11(a)(4)(A) herein, the the Deposit, together with interest thereon, shall be returned to Purchaser and there shall be no further liability between the parties.

(b) Cost of Site Investigation and Cleanup.

(1) **Remedial Investigations** -- Purchaser shall pay one hundred (100%) percent of all consulting costs associated with the Level 2 Investigation, provided however, in the event Seller terminates the Contract as provided for in Paragraph 11(a)(4)(A), Seller shall upon demand reimburse Purchaser for fifty (50%) percent of all reasonable consulting costs associated with the Level 2 Investigation.

(2) **Site Remediation**

(A) Purchaser and Seller shall share in the cost of conducting Site Remediation as established by the Cleanup Cost Estimate in accordance with the following schedule:

Cleanup Cost Estimate	Allocation
$1.00 - $100,000 -	90% by Seller; 10% by Purchaser
$100,001 - $200,000 -	80% of the excess over $100,000 by Seller; 20% of the excess over $100,000 by Purchaser
$200,001 - $300,000 -	70% of the excess over $200,000 by Seller; 30% of the excess over $200,000 by Purchaser
$300,001 - $400,000 -	60% of the excess over $300,000 by Seller; 40% of the excess over $300,000 by Purchaser
$400,001 - and up	100% by Purchaser

For example, if the Cleanup Cost Estimate is $250,000.00, Seller shall be responsible for the payment of $205,000.00 and Purchaser shall be responsible for the payment of $45,000.00.

(B) Upon Closing, Purchaser and Seller shall place monies in a remediation escrow account ("Escrow Account") to be held by Purchaser's attorneys (the "Environmental Escrow Agent") in accordance with paragraph 11(b)(2)(A) pursuant to an escrow agreement in form and substance satisfactory to the parties to be executed at the Closing. Not later than ten (10) days after Closing, Purchaser and Seller shall jointly select, from a list of at least three (3) potential vendors to be supplied by Purchaser, which list shall be supplied upon Closing, a consultant ("Remediation Consultant") to perform the Site Remediation. Purchaser shall execute and deliver a contract for services with the Remediation Consultant not later than five (5) days after selection of the Consultant by Purchaser and Seller. Purchaser shall not be obligated to execute a contract for services with a Remediation Consultant unless such contract shall: (i) require the Remediation Consultant to indemnify both Purchaser and Seller for all damages, claims, administrative fines, penalties, directives or orders arising out of the Remediation Consultant's acts or omissions; (ii) require the Remediation Consultant to maintain professional liability and comprehensive general liability insurance naming both Purchaser and Seller as additional insureds and deliver to Purchaser and Seller an endorsement naming both Purchaser and Seller as insureds with a minimum $1,000,000 coverage; (iii) require the Remediation Consultant to perform the

Site Remediation at a cost not to exceed the Cleanup Cost Estimate; and (iv) be reasonably acceptable to Seller. Copies of all invoices submitted by the Remediation Consultant to the Purchaser shall be submitted to Seller not later than three (3) days of their receipt by Purchaser.

(C) Site Remediation shall be deemed complete when (i) any governmental agencies with jurisdiction over the Environmental Condition(s) at the Property represent to Purchaser that applicable cleanup requirements have been met or (ii) if no governmental agency is involved, Purchaser and Seller execute and deliver to each other duplicate originals of a document acknowledging that Site Remediation is complete. The Purchaser and Seller shall execute and deliver to each other duplicate originals of a document acknowledging that Site Remediation is complete ("Remediation Completion Acknowledgment") when no further material and substantial site remediation work shall be reasonably required. Within three (3) days after the execution and delvery of the Remediation Completion Acknowledgment, Purchaser shall authorize the Environmental Escrow Agent to release, within thirty (30) days after receipt of such authorization, the balance, if any, of the Escrow Amount to Seller and Purchaser in the same proportions as contributed to the Escrow Amount pursuant to paragraph 11(b)(2)(A). However, regardless of when Site Remediation is complete, to the extent that the actual cost of Site Remediation exceeds the sums representing the Cleanup Cost Estimate which were placed in escrow in accordance with Paragraph 11(b)(2)(A) hereof, Seller shall not

be responsible for any of such excess and any such excess will be borne solely by Purchaser.

(c) Environmental Covenants.

(1) The Seller shall deliver the Property upon Closing free of damaged friable asbestos.

(2) The foregoing notwithstanding, in the event prior to Closing the Purchaser identifies pipes or other fixtures which are wrapped, encased or otherwise affected by damaged friable asbestos insulation and which pipes or fixtures the Purchaser intends to remove or alter after Closing, the Purchaser may waive, in writing, the Seller's obligation pursuant to Paragraph 11(c)(1) as to the specific pipes or fixtures. Any such waiver shall be narrowly construed to include only the specific pipe or fixture identified in the waiver.

(3) In the event any Environmental Condition results from the acts or omissions of the Seller in removing the Removal Property (as hereinafter defined in Paragraph 20 hereof) from the Property prior to or during the Removal Period (as hereinafter defined in Paragraph 20 hereof), Seller shall be responsible, at its sole cost and expense, to remediate said Environmental Condition in accordance with any Environmental Requirement. Seller shall indemnify and hold Purchaser harmless from and against any costs or expenses, of whatever nature, incurred by Purchaser as a result of the remediation of any Environmental Condition caused by Seller in connection with the removal by Seller of the Removal Property prior to or during the Removal Period. Such obligation of Seller shall be excepted from the Absolute Release Regarding

Environmental Matters to be delivered by Purchaser pursuant to Paragraph 11(e)(2)(B) hereof.

(4) In the event any Environmental Condition results from the acts or omissions of Purchaser after the Closing, Purchaser shall be solely responsible for the remediation thereof.

(5) Within twenty (20) days of the date hereof, Seller shall, at its cost and expense, provide a letter or letters from NJDEPE stating that the transfer and conveyance of the Property is not subject to the terms and conditions of ECRA.

(6) Prior to Closing, Seller shall close and seal the existing well located on the Property in compliance with Environmental Requirements.

(d) Additional Definitions.

(1) "Environmental Condition" means any condition regarding the presence of Regulated Materials on, in, under or originating from the Property or located within any improvements thereon with respect to air, soil, surface water or groundwater, which condition requires response under any Environmental Requirements in effect at the time of their application.

(2) "Environmental Requirements" means all applicable federal, state and local government or agency environmental statutes, ordinances, rules, notices, regulations, permits, policies and orders, relating to the following: (i) the discharges, emission or release of any materials, including Regulated Materials, to the air, surface water, groundwater or soil; (ii) the discharge of any dredge or fill materials to a wetland or other water of the United States; (iii) the storage, treatment, disposal,

or handling of any Regulated Material; or (iv) the construction, operation, maintenance, repair or closing of underground storage tanks or wells on the Property.

(3) "Regulated Materials" means (i) hazardous substances as defined in the Comprehensive Environmental Response, Compensation and Liability Act, as amended ("CERCLA") or the New Jersey Spill Compensation and Control Act ("Spill Act"), (ii) solid wastes, as defined by the Resource Conservation Recovery Act ("RCRA") or the New Jersey Solid Waste Managment Act, (iii) asbestos or asbestos containing materials, (vi) PCB's or substances containing PCB's, (vii) sludges, (viii) septic tanks and any other material the discharge, disposal or release of which is regulated under Environmental Requirements.

(4) "Release" or "Discharge" shall have the meanings ascribed those terms under all applicable federal, state and local laws, regulations and ordinances.

(5) "Remediation" means the cleanup, removal or any other mitigation of an Environmental Condition at the Property and/or including any action required by any federal, state or local governmental unit, or which is necessary to reduce the amount of a Regulated Material to conform with Environmental Regulations, including but not limited to the removal and/or closing in place in accordance with all applicable legal requirements of all underground storage tanks ("UST").

(e) Environmental Representations and Warranties.

(1) Seller hereby represents, warrants and covenants to Purchaser that:

(A) Other than in connection with its normal business operations, to the best of Seller's knowledge and other than as set forth in the Level 1 Report, the Property has not been used by Seller to refine, produce, handle, transfer, process or transport Regulated Materials, and Seller has not used or permitted the use of the Property for the principal or primary purpose of generating, disposing, refining, producing, storing, handling, transferring, processing or transporting said Regulated Materials, except with respect to underground storage tanks.

(B) Neither Seller nor its agent have received written notice of pending or threatened civil, criminal or administrative proceedings against Seller arising out or or relating to the Environmental Condition of the Property or any activities regarding Regulated Materials. Neither Seller nor its agents have received any written notice of violation regarding the Environmental Condition of the Property or any activities regarding Regulated Materials. Seller as not entered into any consent decree, judicial order or settlement currently affecting the Property.

(C) To the best of Seller's knowledge, Seller is in compliance with, and shall continue until the expiration of the Removal Period, to comply with all federal, state and local laws, rules and regulations relating to Regulated Materials.

(D) If Seller shall receive (i) notice of any Discharge or Release on the Property of any Regulated Material which is violative of any applicable federal, state or local statute or regulation, (ii) any complaints, citations, orders,

liens or penalties relating to alleged violations or non-compliance with federal, state or local statutes or regulations regarding Regulated Materials on or about the Property, or (iii) actual knowledge or notice of any events or conditions involving the Discharge or Release of any Regulated Materials on or about the Property, then Seller shall provide Purchaser and the Level 2 Consultant with notice of same within five (5) days after receipt of any such notice.

(2) Purchaser hereby represents, warrants and covenants to Seller that:

(A) It will have undertaken all engineering, environmental, or other inspections which it desires to perform on the Property, said inspections including, by way of example and not limitation, the Level 1 investigation and the Level 2 Investigation to be performed pursuant hereto, and that the opportunities afforded Purchaser fully satisfy Purchaser's desire to undertake a diligent inquiry into the environmental condition of the Property.

(B) Subject to the terms and conditions of this Paragraph 11, Purchaser agrees to purchase the Property "as is", regardless of the presence of any level or concentration of Regulated Materials discovered on the Property and regardless of whether the studies conducted by Purchaser and Seller, as more fully described in subparagraph 11(a), disclose the presence or extent of such Regulated Materials subject to the terms of this Contract, and Purchaser agrees to deliver to Seller at Closing a release of Seller in form reasonably satisfactory to Seller (the "Absolute Release Regarding Environmental Matters") which, except

for any claims arising under subparagraph 11(c)(3) hereof and Purchaser's rights to enforce its rights hereunder, shall fully, completely and unconditionally release Seller from all claims Purchaser may have against Seller, now or in the future, arising out of an Environmental Condition of the Property, known or unknown, disclosed or undisclosed, latent or patent.

(C) Except as required by law, Purchaser agrees not to disclose to any third party any information not in the public domain, relating to this Contract during the pendency of this Contract and after Closing, including but not limited to written and verbal data, studies, proposals, cost estimates, reports and findings regarding the Environmental Condition of the Property, without the written consent of Seller unless disclosure to the Level 2 Consultant is reasonably necessary in order for the Level 2 Consultant to review such materials as part of Purchaser's pre-purchase inquiries.

(D) Purchaser has caused a Level 1 Investigation to be performed by Environmental Strategies and Applications, Inc. ("ESA") and ESA has delivered to Purchaser a Level 1 Report (the "Level 1 Report") a copy of which has been delivered to Seller.

(E) It selected ESA as its environmental consultant without any input, limitations or restrictions from the Seller.

(F) The Seller did not limit the scope of ESA's Level 1 Investigation.

(G) The Seller assisted and instructed its environmental consultant, SFM Group, Inc. ("SFM"), to cooperate in

providing all information and records to the Purchaser which SFM has in its possession.

(h) The Seller has not made any representations or warranties to the Purchaser as to the accuracy of any information, records or material provided to the Purchaser by SFM, the Seller or any other party as to environmental matters.

(f) The provisions of this Paragraph 11 shall survive the Closing.

12. Condemnation. Seller shall give the Purchaser prompt Notice of any actual or threatened taking or condemnation of all or any substantial portion of the Property. If, prior to the Closing, there shall occur a taking or condemnation of all or any substantial portion of the Property, or a deed has been given in lieu thereof, or there is pending any proceeding in condemnation or eminent domain for the taking or use of all or any substantial portion of the Property, then, in any such event, either party, at its option, may terminate this Contract in its entirety by Notice given to the other party within ten (10) days after Purchaser has received the Notice referred to above or at the Closing, whichever is earlier. For purposes of this Paragraph 12, a taking or condemnation shall be deemed "substantial" if, as a result thereof (i) the Property no longer conforms to existing zoning ordinances of the Borough of Teterboro or (ii) Purchaser is unable to use the Property as contemplated hereby without a material interference in Purchaser's operations. If neither party so elects to terminate this Contract, or if there is a condemnation or taking of the Property which is not deemed to be substantial, then the Closing

shall take place as provided herein without abatement of the Purchase Price and Seller shall assign to Purchaser at the Closing (subject to the rights of the holder(s) of any existing lien(s)) all interest of Seller in and to any sums which may be payable to Seller as a result of such taking or condemnation; provided, however, that if any such condemnation award is paid to the holder of any mortgage or lien on the Property, then the Purchase Price shall be reduced by the amount of such condemnation award payable to such mortgagee. In the event of such assignment, Purchaser shall have the exclusive right to negotiate and settle with the condemning authority. This provision shall survive the Closing.

13. Risk of Loss. The risk of loss or damage to the Property by fire or other casualty until the Closing shall be the responsibility of Seller subject to the following:

(a) In the event that the Property shall suffer damage beyond ordinary wear and tear resulting from fire or other casualty, Seller shall allow the deduction of the reasonable estimate of the cost of repair or replacement from the Purchase Price at Closing, which estimate shall be based upon the written estimate of the cost of repair or replacement obtained from a New Jersey licensed architect acceptable to both parties. In the event that the parties hereto cannot agree upon an architect to make such an estimate, Seller shall select an architect, Purchaser shall select an architect and the two architects so chosen shall select a third architect whose estimate shall be binding on the parties. Any estimate pursuant to this subparagraph 13(a) shall be obtained

within thirty (30) days after the occurrence of the casualty giving rise to the need for such estimate.

(b) In the event that the Property shall suffer damage costing $200,000.00 or more to replace or repair based upon a written estimate obtained from such New Jersey licensed architect(s), either party shall have the right (i) to terminate this Contract in its entirety, or (ii) to consummate this transaction, in which event Seller shall grant to Purchaser and Purchaser shall take from Seller an assignment of the insurance proceeds on the Property; provided, however, that the Purchase Price will be reduced by the amount of any deductible applied by such insurance company against insurance proceeds and the amount paid to any insurance adjuster.

14. Assessments. If, on or prior to the date hereof, the Property or any part thereof shall be or shall have been affected by an assessment or assessments for municipal improvements or unconfirmed improvements or assessments which are or may become payable in annual installments of which the first installment is then due or has been paid, then for the purpose of this Contract, all of the unpaid installments of any such assessment, including those which are to become due and payable and to be liens upon so much of the Property as is affected thereby shall be assumed by the Purchaser upon the Closing and Seller shall have no further obligation therefor. In the event that the liability for any such assessment exceeds, or is reasonably expected to exceed, the sum of $50,000.00, Purchaser may terminate this Contract at any time prior

to the Closing but in no event later than May 1, 1992. This provision shall survive the Closing.

15. Seller's Representations, Warranties and Covenants. In addition to the representations, warranties and covenants set forth elsewhere in this Contract, Seller represents, warrants and covenants as follows:

(a) Seller is duly organized, validly existing and in good standing under the laws of the State of New Jersey, and has full power and authority, in accordance with law, to enter into this Contract and to carry out the transactions contemplated hereby. All proceedings required to be taken by or on behalf of Seller to authorize Seller to make, deliver and carry out this Contract have been duly and properly taken. Neither the execution and delivery of this Contract nor the consummation of the transactions provided for herein will constitute a violation or breach by Seller of any provisions of any agreement or other instrument to which Seller is a party, or will result in or constitute a violation or breach of any judgment, order, writ, injunction or decree issued against or binding upon Seller;

(b) This Contract is a valid and binding agreement of Seller, enforceable in accordance with its terms;

(c) There is no litigation, legal actions or proceedings currently pending or threatened against the Property or against Seller, except as identified on Exhibit D attached hereto;

(d) Seller has no knowledge of and has received no service or other written notice of any threatened or pending condemna-

tion or eminent domain proceedings which would affect the Property or any part thereof;

(e) Seller is not a foreign person (as that term is defined in the Internal Revenue Code);

(f) Except as provided for herein, there will be no leases, agreements or occupancy rights giving any person, firm, corporation or entity the right to use, occupy or possess all or any portion of the Property from and after the Closing Date;

(g) No other person or entity has any right of first refusal or option to acquire all or any portion of the Property or any interest therein;

(h) Seller has not filed and is not aware of the filing by any party of a petition in bankruptcy with respect to Seller or for an arrangement or for reorganization of Seller pursuant to the Federal Bankruptcy Code or any similar law, federal or state, has not been adjudicated a bankrupt or declared insolvent by decree of a court of competent jurisdiction, has not made an assignment for the benefit of creditors, has not admitted in writing its inability to pay its debts generally as they become due, and has not consented to the appointment of a receiver or receivers of all or any part of the Property;

(i) Seller has not entered into, and has no knowledge of, any contracts or other instruments, including, without limitation, equipment leases or management, service, maintenance, labor or similar agreements which will affect the Property after the Closing Date, and Seller shall not enter into any such agreements without the prior written consent of Purchaser;

(j) Seller represents that it has not received written notice of any special assessments with respect to betterments and improvements, confirmed or pending, against the Property;

(k) From and after the date hereof, Seller shall not grant any easements, licenses, mortgages, liens, encumbrances or restrictions affecting any portion of the Property without the prior written consent of Purchaser;

(l) To the best of Seller's knowledge, Seller has obtained all licenses, permits, easements and rights of way, including proof of dedication, required from all governmental authorities having jurisdiction over the Property or from private parties for the normal use and operation of the Property and to insure vehicular and pedestrian ingress to and egress from the Property;

(m) Seller knows of no agreements or restrictions which would limit the use and development of the Property as contemplated by Purchaser herein; and

(n) From and after the date hereof and until the Closing Date, Seller will not intentionally take any action or intentionally omit to take any action which action or omission would have the effect of materially violating any of the representations and warranties of Seller contained in this Contract.

(o) The Federal Taxpayer Identification Number of Seller is 13-1584303.

16. Purchaser's Representations and Warranties. Purchaser hereby represents and warrants that:

(a) Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of New Jersey;

(b) Purchaser has all requisite power and authority, in accordance with law, to enter into this Contract and to carry out the transactions contemplated hereby. All proceedings required to be taken by or on behalf of Purchaser to authorize Purchaser to make, deliver and carry out this Contract have been duly and properly taken; and

(c) This Contract has been duly executed and delivered by Purchaser and constitutes a valid and binding agreement of Purchaser, enforceable in accordance with its terms.

17. Due Diligence Review.

(a) The Purchaser shall have the right, at its sole cost and expense, for a period of thirty (30) days after the date of this Contract (the "Due Diligence Period") to conduct a thorough examination of the Property and such materials as are set forth below, including but not limited to the following (the "Due Diligence Review"):

(i) inspect the tax bills, utility bills and repair and maintenance invoices of Seller pertaining to the ownership and operation of the Property for the five (5) years immediately preceding the date hereof, and make copies and extracts from these materials;

(ii) review existing drawings and specifications for the Property, if any;

(iii) obtain and review the Title Report and the Survey, subject to subparagraph 2(c) hereof;

(iv) make a thorough physical and engineering inspection of the Property, as it deems necessary, by such architects, engineers, surveyors, consultants or other experts it chooses; provided that such inspections do not undermine or structurally impair the Property or any rights, benefits or privileges appurtenant thereto or the building(s) located thereon;

(v) review existing engineering and environmental reports pertaining to the Property and all governmental permits, licenses, approvals issued in connection with the Property; and

(vi) review existing local zoning ordinances to determine whether the existing building on the Property can be expanded to 65,000 square feet.

(b) Seller expressly acknowledges and agrees that in the event the aforementioned Due Diligence Review reveals material adverse physical or zoning (pursuant to subparagraph 17(a)(vi) hereof) conditions which render the Property economically unsuitable for its intended use, Purchaser shall have the right to terminate this Contract upon written notice to Seller given no more than five (5) business days after the expiration of the Due Diligence Period. Nothing herein contained, however, shall be deemed a waiver of Purchaser's right to terminate this Contract after the expiration of the Due Diligence Period in the event any of the other conditions of this Contract are not satisfied as required herein.

(c) Seller hereby grants to Purchaser and its architects, engineers, surveyors, consultants and other representatives reasonable access, upon reasonable notice, to the Property as Purchaser may reasonably require in order to conduct the Due Diligence Review. Seller shall make available to Purchaser at Seller's office, during normal business hours, upon reasonable notice, copies of the items set forth in subparagraphs 17(a)(i) and (ii) hereof. Seller and Purchaser shall cooperate with each other in order to prevent any unreasonable interference with the activities of the other party on the Property during the Due Diligence Period.

(d) In the event Purchaser terminates this Contract as provided for herein, Purchaser shall return all documents and materials provided to Purchaser by Seller on or before the time Seller returns the Deposit to Purchaser pursuant to the terms hereof and shall keep confidential all such information learned therefrom.

18. Zoning; Planning Board Approval. The parties acknowledge that the Borough of Teterboro requires an approval by the Planning Board of the Borough of Teterboro (the "Board") of any proposed commercial occupant and use before a zoning certificate of occupancy will be issued by the Building or Code Enforcement Department. Purchaser hereby acknowledges that it has received the approval of the Board granting a zoning certificate of occupancy. A copy of the resolution of the Board memorializing said approval is annexed hereto and made a part hereof as Exhibit E. The issuance of a building certificate of occupancy or any other

approvals or permits from any other governmental agency (other than as set forth in paragraph 11 hereof) is not a condition of this Contract.

19. Right of Early Access. From and after the expiration of the Due Diligence Period, and provided that Purchaser shall not have terminated the Contract pursuant to its terms, Purchaser or its representatives and agents shall have the right to enter upon the Property for the limited purposes of taking measurements, drawing plans, reviewing existing utility service and all such similar planning activities necessary for Purchaser to prepare the Property for its intended use. Seller and Purchaser shall cooperate with each other in order to prevent any unreasonable interference with the activities of the other party on the Property prior to Closing. Purchaser shall indemnify and hold Seller harmless from and against any and all loss, costs, damages and expenses arising out of or resulting from Purchaser's entry onto the Property pursuant to this Paragraph 19.

20. Post-Closing Activities.

(a) During the period from the Closing Date to April 30, 1992 (the "Removal Period"), and subject to the terms of this Paragraph 20, Seller or its agents and representatives shall, if it has not already done so, remove, at its sole cost and expense, and shall have the right to enter the Property for the limited purpose of removing, from the interior and exterior portions of the Property all of the following (collectively, the "Removal Property"):

(i) Seller's trade fixtures (including all machinery, process pipes, storage tanks, vats, conduits and all other fixtures and equipment used in connection with its business operations at the Property, i.e., by way of illustration and not limitation, fructose storage tank, CO2 tank, water storage tank, evaporative cooler, evaporative condensers, gaseous chlorinator, propane tanks);

(ii) Seller's personal property, office furniture and equipment;

(iii) Seller's inventory and other goods and products used by Seller in connection with its business operations at the Property; and

(iv) Fencing and railing located on the inside and outside of the Property.

Notwithstanding anything to the contrary contained herein, Seller shall not, from and after the date of Closing, conduct any business operations at the Property other than the dismantling and removal of the Removal Property. Seller shall be responsible for any and all damage, structural or otherwise, to the interior and/or exterior of the Property, or any portion thereof, caused by the removal of the Removal Property except that Seller shall not rebuild, replace or reconstruct any interior walls which may be removed by Seller so long as such removal does not adversely affect the structural integrity of the Building. Seller shall leave the interior of the Property in broom-clean condition and shall remove all rubbish, litter and debris from the exterior of the Property.

(b) In consideration for the rights granted to Seller pursuant to subparagraph 20(a) hereof, Seller shall pay to Purchaser, in monthly installments in advance, an amount determined by multiplying the Purchase Price by an interest factor equal to the prime rate of United Jersey Bank in effect on the Closing Date plus two (2%) percent per annum for the period of time after the Closing Date that the Removal Property, or any portion thereof, remains on the Property. In addition, Seller shall be responsible for its share of utility costs incurred during the Removal Period.

(c) In the event that any portion of the Removal Personal Property remains on the Property after the expiration of the Removal Period, Seller shall pay to Purchaser the sum of $1,500.00 for each and every day after the expiration of the Removal Period until all of Removal Property has been removed from the Property. In addition, Seller shall be responsible for all costs and fees incurred by Purchaser in prosecuting any action to remove Seller from the Property after the expiration of the Removal Period.

(d) During the Removal Period, Purchaser shall have the right to make renovations to the Property and to commence its business operations therein provided that such activities do not damage the Removal Property. Seller and Purchaser shall cooperate with each other during the Removal Period in order to prevent any unreasonable interference with the activities of the other party on the Property during the Removal Period.

(e) Each party hereto shall indemnify and hold the other harmless from and against any and all loss, damage, liability or

claims of any kind arising out of or resulting from any act or omission by such party or its agents, employees, guests, licensees or invitees on the Property during the Removal Period. During the Removal Period, Seller shall maintain casualty insurance and liability insurance with its present carrier naming Purchaser as an additional insured, and shall deliver the appropriate certificate of insurance to Purchaser prior to the commencement of the Removal Period.

21. Notices. All notices, demands or other communications which are required or permitted to be given hereunder (each, a "Notice") shall be in writing and shall be deemed duly given when hand delivered, when mailed by registered or certified mail, postage prepaid, return receipt requested or when sent by overnight delivery service providing delivery confirmation, addressed to the respective parties as follows.

If to Seller:	Pepsi Cola Metropolitan Bottling Co., Inc 2 Empire Boulevard Moonachie, New Jersey 07074 Att: Ms. Florence Bolden
with a copy to:	Bressler, Amery & Ross 325 Columbia Turnpike Florham Park, New Jersey 07432 Att: Edward McKenzie, Esq.
If to Purchaser:	Harco Industries, Inc. 31 Schrieffer Street South Hackensack, New Jersey 07606 Att: Saro Hartounian
with a copy to:	Wolff & Samson 5 Becker Farm Road Roseland, New Jersey 07608 Att: Dennis Brodkin, Esq.

Anyone may change his or its address for notice purpose by giving Notice of the new address to all parties listed above in the manner specified herein.

22. Governing Law. This Contract and all matters pertaining hereto shall be governed by and construed in accordance with the laws of the State of New Jersey.

23. Assignment. At the Closing, Purchaser may freely assign its rights and obligations under this Contract, without the consent of Seller, to any entity or entities which Purchaser may deem necessary or desirable, in its sole discretion, in connection with the development and/or operation of the Property provided Purchaser shall not be released from any obligation hereunder. Seller shall not assign its rights and obligations under this Contract without the prior written consent of Purchaser.

24. Successors and Assigns. The covenants, conditions and agreements in this Contract shall bind inure to the benefit of Seller and Purchaser and, except as otherwise provided in this Contract, their respective successors and assigns.

25. Entire Contract. This Contract contains the entire agreement between the parties, and it is intended by the parties to be an integration of all agreements between the parties in respect of the Property. Any agreement hereafter made shall be ineffective to change, modify or discharge this Contract, in whole or in part, unless such agreement is in writing and signed by the party against whom enforcement of the change, modification or discharge is sought.

26. Construction. Purchaser and Seller hereby acknowledge that each party and its counsel have reviewed and revised this Contract and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Contract or any amendments, exhibits or schedules hereto.

27. Execution. This Contract may be executed in any number of counterparts, each of which, when so executed and delivered, shall be deemed an original, but such counterparts together shall constitute but one and the same instrument so long as same are identical.

28. Headings. The paragraph headings herein are for convenience only and shall not be construed to limit or affect any provisions of this Contract.

29. Severability. In the event that any one of more of the provisions of this Contract shall be determined to be void or unenforceable by a court of competent jurisdiction or by law, such determination will not render this Contract invalid or unenforceable and the remaining provisions hereof shall remain in full force and effect.

30. Remedies Upon Default/Liquidated Damages.

(a) Subject to Purchaser's rights pursuant to the provisions hereof to terminate this Contract and to receive a refund of the Deposit, if, on the Closing Date, Seller is ready, willing and able to close title hereunder, and Purchaser shall wrongfully fail to consummate the transaction contemplated hereby, Seller's sole remedy shall be, in Seller's sole discretion, either (i) to

pursue an action for specific performance or (ii) to retain the Deposit, together with any interest earned thereon, as liquidated damages, whereupon this Contract shall terminate and neither party shall have any further rights or obligations hereunder.

(b) In the event of a default hereunder by Seller or to the extent of any material misrepresentation or breach of any material warranty or material covenant by Seller which Seller does not cure after reasonable notice or a failure by Seller to comply with any condition at the time of Closing, Purchaser shall be entitled to terminate this Contract and pursue all of its rights and remedies at law and in equity.

31. Broker. Each party represents to the other that it has dealt with no broker, agent or finder in connection with this transaction other than William A. White/Grubb & Ellis, Inc., it being understood and agreed that Seller shall be responsible, at its sole cost and expense, to pay the real estate brokerage commission in connection with this transaction. Each party agrees to indemnify, defend and save the other harmless from and against the claims of any other real estate brokers claiming commissions in connection with the within transaction and claiming authority from said indemnifying party. The provisions of this Paragraph shall survive the Closing or earlier termination of this Contract.

32. Interpretation. Words in the singular number shall be held to include the plural and vice versa and words of one gender shall be held to include the other genders as the context requires. The terms "hereof", "herein" and "herewith" and words of similar import shall be construed to refer to this Contract in its entirety

and not to any particular provisions unless otherwise stated. The word "person" shall mean any natural person, partnership, corporation and any other form of business or legal entity.

IN WITNESS WHEREOF, the parties have executed this Contract on the date and year first above written.

ATTEST:

THOMAS F. GARRY
GROUP MGR, A/E

SELLER:
PEPSI COLA METROPOLITAN BOTTLING CO., INC.

By: Thomas H Tamoney Jr
Name: THOMAS H. TAMONEY, JR.
Title: VICE PRESIDENT

ATTEST:

Gom Hartounian
Secretary

PURCHASER:
HARCO INDUSTRIES, INC.

By: Saro Hartounian
Name: Saro Hartounian
Title: President

EXHIBIT A

Legal Description

EXHIBIT B

Escrow Agreement

EXHIBIT B

ESCROW AGREEMENT

THIS AGREEMENT, made the _____ day of March, 1992, among Pepsi Cola Metropolitan Bottling Co., Inc. (the "Seller"), Harco Industries, Inc. or its assignee (the "Purchaser") and Bressler, Amery & Ross (the "Agent").

W I T N E S S E T H :

WHEREAS, the Seller and the Purchaser have entered into a Contract of Sale dated March , 1992, relating to the purchase from the Seller by the Purchaser of the real property commonly known as 350 North Street, Teterboro, New Jersey; and

WHEREAS, the Seller and the Purchase desire to have the Agent hold in escrow the downpayment made by the Purchaser pursuant to the Contract of Sale;

NOW, THEREFORE, in order to induce the Seller and the Purchaser to enter into the Contract of Sale and the Agent to hold the Escrow Fund (as hereinafter defined) and in consideration of $1.00 and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Seller, the Purchaser and the Agent hereby agree as follows:

1. Simultaneously with the execution and delivery of this Agreement, the Purchaser has deposited with the Agent the sum of Two Hundred Thousand Dollars ($200,000.00) (together with interest accrued and paid thereon hereinafter collectively referred to as the "Escrow Fund"), the receipt of a check (subject to collection) for which the Agent hereby acknowledges, to insure the full and faithful performance by the Purchaser of the terms and conditions of the Contract of Sale.

2. The Agent shall invest the Escrow Fund in a(n):

(i) obligation of the United States Government, its agencies or independent departments;

(ii) certificate of deposit issued by a banking institution;

(iii) interest-bearing account of a banking institution; or

(iv) money market fund.

3. (a) If the closing of title takes place under the Contract of Sale, the Agent shall deliver the Escrow Fund to the Seller.

(b) If the closing of title does not take place by reason of the wrongful failure of the Purchaser to close title under the Contract of Sale, then, because the actual

damages that will thereby be sustained by the Seller are acknowledged by the parties thereto to be substantial and difficult or incapable of ascertainment, the Agent shall pay the Escrow Fund to the Seller as liquidated damages.

(c) If the closing of title does not take place by reason of the failure or inability of the Seller to comply with its obligations under the Contract of Sale, the Agent shall pay the Escrow Fund to the Purchaser.

(d) If the closing of title does not take place by reason of the termination of the Contract of Sale in accordance with the terms thereof and other than as set forth above, the Agent shall pay the Escrow Fund to the Purchaser.

4. The duties of the Agent are limited to those specifically provided for herein and are purely ministerial in nature. The Agent shall incur no liability hereunder or otherwise except for its gross negligence, and the Seller and the Purchaser hereby release the Agent from any such liability for any action taken by it hereunder or for any failure or refusal to act hereunder or for any other matter. Unless the Agent shall have been guilty of gross negligence, the Seller and the Purchaser, jointly and severally, agree to indemnify and hold harmless the Agent from and against any liability, and shall promptly pay or reimburse the Agent for its fees and for all costs and expenses incurred by it in connection with its performance under this Agreement. Except as provided in the immediately preceding sentence, the Purchaser shall have no obligation to pay any fee or other compensation to the Agent for acting hereunder.

The Agent shall not be bound in any way by any agreement or contract between Seller and Purchaser, whether or not it has knowledge thereof, and the Agent's only duties and responsibilities shall be to hold the Escrow Fund as Agent and to dispose of said assets in accordance with the terms of this Agreement. Without limiting the generality of the foregoing, the Agent shall have no responsibility to protect the Escrow Fund and shall not be responsible for any failure to demand, collect or enforce any obligation with respect to the Escrow Fund or for any diminution in value of Escrow Fund for any cause. The Agent may, at the expense of the Seller and the Purchaser, consult with counsel and accountants in connection with its duties under this Agreement and the Agent shall be fully protected in any act taken, suffered or permitted by it in good faith in accordance with the advise of such counsel and accountants. The Agent shall not be obligated to take any action hereunder which may, in its reasonable judgment, involve it in any liability unless the Agent shall have been furnished with reasonable indemnity satisfactory in amount, form and substance to the Agent.

5. The Agent is acting as a stakeholder only with respect to the Escrow Fund. If there is any dispute as to whether the Agent is obligated to aught the Escrow Fund or as to whom the Escrow Fund is to be delivered, the Agent shall not make any delivery, but in such event the Agent shall hold the Escrow Fund until receipt by the Agent of an authorization in writing, signed by all the parties having an interest in such dispute, directing

the disposition of the Escrow Fund, or, in the absence of such authorization, the Agent shall hold the Escrow Fund until the final determination of the rights of the parties in an appropriate proceeding. The Agent shall have no responsibility to determine the authenticity or validity of any notice, instruction, instrument, document or other item delivered to it, and it shall be fully protected in acting in accordance with any written notice, direction or instruction given to it under this Agreement and believed by it to be authentic. If such written authorization is not given, or proceedings for such determination are not begun, within thirty days after the date scheduled for the closing of title and diligently continued, the Agent may, but is not required to, bring an appropriate action or proceeding for leave to deposit the Escrow Fund with a court of the State of New Jersey pending such determination. The Agent shall be reimbursed for all costs and expenses of such action or proceeding, including, without limitation, attorneys' fees and disbursements by the party determined not to be entitled to the Escrow Fund. Upon making delivery of the Escrow Fund in the manner provided in this Agreement, the Agent shall have no further liability hereunder. The Agent shall have the right to represent the Seller in any dispute between the Seller and the Purchaser with respect to the Escrow Fund or otherwise. In no event shall the Agent be under any duty to institute, defend or participate in any proceeding which may arise between the Seller and the Purchaser in connection with the Escrow Fund.

6. The Agent or any successor Agent may resign at any time by giving fifteen (15) days' prior notice of resignation to the other parties hereto, such resignation to be effective on the date specified in such notice. In case the office of the Agent shall become vacant for any reason, the Seller may appoint a bank or trust company, having a combined capital and surplus of at least $20,000,000 as successor Agent to the retiring Agent, whereupon such successor Agent shall succeed to all rights and obligations of the retiring Agent as if originally named hereunder and the retiring Agent shall duly transfer and deliver to such successor Agent the funds and records held by the retiring Agent hereunder.

7. All notices and other communications hereunder shall (except as otherwise herein provided) be in writing and either hand-delivered or sent by prepaid registered or certified mail to the addresses set forth below or at such other address as a party may hereinafter give by written notice as herein provided.

(a) If to the Seller: c/o Pepsi Cola Metropolitan Bottling Co., Inc., 2 Empire Boulevard, Moonachie, New Jersey 07074, Attn: Ms. Florence Bolden;

(b) If to the Purchaser: c/o Mr. Saro Hartounian, Harco Industries, 31 Schrieffer Street, South Hackensack, New Jersey 07606 with a copy to Dennis Brodkin, Esq., Wolff & Samson, 5 Becker Farm Road, Roseland, New Jersey 07068;

(c) If to the Agent: c/o Bressler, Amery & Ross, P.O. Box 1980, Morristown, New Jersey 07962, Attn: Edward McKenzie, Esq.

Notices and other communications hereunder shall be deemed to have been given when they are received by the party to whom they are addressed.

8. The provisions of this Agreement shall be governed and construed in accordance with the laws of the State of New Jersey and shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, successors and assigns. This Agreement may not be changed or amended in any manner whatsoever except in writing signed by each of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

PEPSI COLA METROPOLITAN
BOTTLING CO., INC.

By:_____

HARCO INDUSTRIES, INC.

By:_____
Saro Hartounian, President

BRESSLER, AMERY & ROSS

By:_____

EXHIBIT D

Litigation

None

EXHIBIT E

Resolution of Borough of Teterboro
(Zoning Certificate of Occupancy)

BOROUGH OF TETERBORO

RESOLUTION OF MEMORIALIZATION

APPLICATION FOR ZONING CERTIFICATE OF OCCUPANCY
BLOCK 303 , LOT 11 APPLICATION OF HARCO INDUSTRIES, INC.

OFFERED BY: Joan Dutton

SECONDED BY: Edward Dutton

WHEREAS, HARCO INDUSTRIES, INC. has applied to the Borough of Teterboro Planning Board for a zoning Certificate of Occupancy for the use of premises located at 350 North Street and more particularly designated as Lot 11 , Block 303 ; and

WHEREAS, the said premises are ~~owned by~~ to be purchased from Pepsi Cola Metropolitan Bottling Co., Inc.; ~~who has consented to this application~~; and

WHEREAS, the Planning Board has reviewed said application at a regular meeting of the Borough of Teterboro Planning Board held upon proper notice to all parties at the Borough of Teterboro Municipal Building on February 11 , 1992, at which time the Planning Board made the following findings of fact and conclusions of law:

1. Said application is for the use of said premises for an office or industrial use or combination thereof permitted under the zoning ordinance of the Borough of Teterboro;

2. The Planning Board has determined that parking facilities are adequate for the anticipated use of the applicant and that all regulations of the Borough of Teterboro pertaining to health are properly met and provided for; and

3. The application is in conformance with all of the site plan and land use ordinances of the Borough of Teterboro.

NOW THEREFORE BE IT RESOLVED by the Planning Board of the Borough of Teterboro that the aforesaid application be and the same is hereby approved for the issuance of a zoning Certificate of Occupancy, subject to the following conditions:

1. Approval of all governmental agencies having jurisdiction over the subject matter of this application.

2.

3.

Dated: February 11, 1992

Delmar E. Watt, Chairman

Certified to be a true copy of a Resolution adopted by the Planning Board of the Borough of Teterboro at its regular meeting on February 11, 1992.

Margaret J. Cahill, Secretary

Members	Yes	No	
Delmar E. Watt	x		
James Tellefsen, Jr.			Absent
John P. Watt			Absent
Joseph G. Marra, Jr.	x		
Edward Dutton	x		
Joan Dutton	x		
Annette Golding	x		

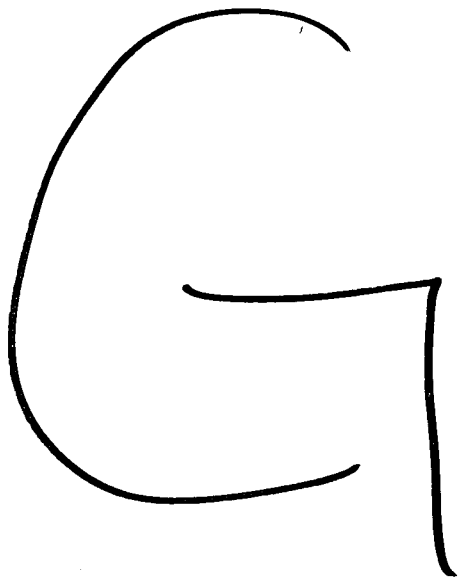


Exhibit G in response to question 15

BRESSLER, AMERY & ROSS
COUNSELLORS AT LAW
P. O. BOX 1980
MORRISTOWN, N. J. 07962
(201) 514-1200

TELECOPIER: (201) 514-1660

HAND DELIVERY:
325 COLUMBIA TURNPIKE
FLORHAM PARK, N. J. 07932

NEW YORK OFFICE
BRESSLER, AMERY & ROTHENBERG
90 BROAD STREET
NEW YORK, NEW YORK 10004
(212) 425-9300

BERNARD BRESSLER
BRIAN F. AMERY
LAWRENCE D. ROSS
DAVID W. REGER
J. MICHAEL RIORDAN
RICHARD V. JONES
RICHARD R. SPENCER, JR.
MARK T. McMENAMY
DAVID P. SCHNEIDER
MARK M. TALLMADGE
EDWIN A. ZIPF
THOMAS L. WEISENBECK
GEORGE R. HIRSCH
DANIEL BALDWIN*
ROBERT BRANTL
NOEL C. CROWLEY
DAVID J. OLESKER

OF COUNSEL
EDWARD P. McKENZIE

MARTIN A. ROTHENBERG
(1918-1988)

JORDAN S. WEITBERG
CYNTHIA J. BORRELLI
GLADYS W. ORR
JOAN H. BEYER
DAVID J. LIBOWSKY
KEVIN M. KILCOMMONS
MICHAEL V. COLVIN
DAVID F. BAUMAN
KEITH S. BARBAROSH
DONALD J. CAMERSON, II
LISA A. BIASE
KEVIN B. WALKER
ERIC J. NEMETH
JEFFREY W. GERBER
LORI A. CONNORS
SCOTT M. EDWARDS
CHARLENE C. McHUGH
ADRIANA E. BAUDRY
BRIAN E. BRAGG*
ELLEN R. BUXBAUM
SARA Y. BOSCO*
DAVID A. MILLER

*MEMBER OF NEW YORK BAR ONLY

July 8, 1992

WRITER'S DIRECT LINE:
201-966-

Mr. Joseph A. Miller
Section Chief
Tank Management Section
Bureau of Underground Storage Tanks
NJDEPE
Division of Responsible Party
Site Remediation
CN 028
Trenton, New Jersey 08625-0028

Re: Pepsi-Cola Metropolitan Bottling Company
350 North Street, Teterboro, Bergen County N.J. Property
Case No: 92-04-16-1250-21 and 92-5-7-1755-36

Dear Mr. Miller:

We represent Pepsi-Cola Bottling regarding its 350 North Street, Teterboro, New Jersey property and are in receipt of your correspondence dated June 4, 1992 ("June 4 letter") to Mr. Jim Laird. Although the June 4 letter suggests that the Department received notification of a "discharge of hazardous substances" related to an "old tank site" at the above-referenced property on August 16, 1992, actual notice of the presence of site contamination was provided to the Department in telephone calls on April 16th and May 7, 1992.

The Department was notified, in the first instance, of the presence of soil contamination in an area adjacent to an existing underground fuel oil storage tank, on April 16th. The Department assigned Case No: 92-4-16-1250-21. Subsequently, on May 7, 1992, following our receipt of groundwater quality results from a site monitoring well located near the Southern property boundary, the Department was contacted and notified of the presence of certain

volatile organic chemicals. At that time, the Department assigned Case No. 92-5-7-1755-36.

Please be advised that Pepsi-Cola is currently in the process of preparing a report for transmittal to the Department describing the sampling activities which lead to the development of the foregoing information. That report will be provided to both the NJDEPE's Regional Field Office and the Bergen County Health Department. Although my client is considering a plan for additional site investigation, it does not necessarily agree that a DICAR is required in order to address either of the areas of contamination. However, since your June 4th correspondence did not include the "Scope Of Work" referenced therein, Pepsi is not in the position to make a final determination regarding its concurrence, or lack thereof, with the Department's requirements.

It would be appreciated, if you would transmit a copy of the Scope Of Work referenced in your June 4 letter to my attention at your earliest convenience. Following receipt of same, I will contact you regarding Pepsi's intended approach to additional remedial investigations. In the interim, if you have any questions, please feel free to contact me at (201)514-1200.

Very truly yours,

BRESSLER, AMERY & ROSS

Eric J. Nemeth

EJN/lb
cc: Mr. Thomas Barry
Ed McKenzie, Esq.
Rina-Beder Cohen, Esq.
Steven Tiffinger, Bergen County Health Officer

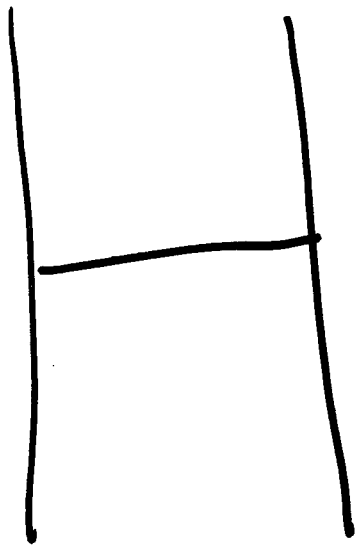


Exhibit H in response to question 15

BRESSLER, AMERY & ROSS
COUNSELLORS AT LAW
P. O. BOX 1980
MORRISTOWN, N. J. 07962
(201) 514-1200

TELECOPIER: (201) 514-1660

HAND DELIVERY:
325 COLUMBIA TURNPIKE
FLORHAM PARK, N. J. 07932

NEW YORK OFFICE
BRESSLER, AMERY & ROTHENBERG
90 BROAD STREET
NEW YORK, NEW YORK 10004
(212) 425-9300

BERNARD BRESSLER
BRIAN F. AMERY
LAWRENCE D. ROSS
DAVID W. REGER
J. MICHAEL RIORDAN
RICHARD V. JONES
RICHARD R. SPENCER, JR.
MARK T. McMENAMY
DAVID P. SCHNEIDER
MARK M. TALLMADGE
EDWIN A. ZIPF
THOMAS L. WEISENBECK
GEORGE R. HIRSCH
DANIEL BALDWIN*
ROBERT BRANTL
NOEL C. CROWLEY
DAVID J. OLESKER

OF COUNSEL
EDWARD P. McKENZIE

MARTIN A. ROTHENBERG
(1918-1988)

JORDAN S. WEITBERG
CYNTHIA J. BORRELLI
GLADYS W. ORR
JOAN H. BEYER
DAVID J. LIBOWSKY
KEVIN M. KILCOMMONS
MICHAEL V. COLVIN
DAVID F. BAUMAN
KEITH S. BARBAROSH
DONALD J. CAMERSON, II
LISA A. BIASE
KEVIN B. WALKER
ERIC J. NEMETH
JEFFREY W. GERBER
LORI A. CONNORS
SCOTT M. EDWARDS
CHARLENE C. McHUGH
ADRIANA E. BAUDRY
BRIAN E. BRAGG*
ELLEN R. BUXBAUM
SARA Y. BOSCO*
DAVID A. MILLER

*MEMBER OF NEW YORK BAR ONLY

May 14, 1992

WRITER'S DIRECT LINE:
201-966-

PRIVILEGED and CONFIDENTIAL

Mr. Thomas Barry
Group Manager, Real Estate Dept.
Pepsi-Cola Metropolitan
Bottling Co., Inc.
1 Pepsi Way
Sommers, NY 10589

Re: **Pepsi Cola Metropolitan Bottling Company**
Teterboro, New Jersey Site
NJDEPE Discharge Notification

Dear Tom:

During the afternoon of May 7, 1992, Dunn Corporation provided me with a copy of the data generated by soil and groundwater samples obtained at Pepsi's Teterboro, New Jersey site. As set forth in my correspondence to counsel for Harco, that data disclosed the presence of gasoline type constituents in the soil and groundwater near the southern property boundary. In accordance with the New Jersey Spill Compensation and Control Act's requirements at N.J.A.C. 7:1E-5.3, this office reported the data to the Department. The spill number assigned to this matter is 92-5-7-1755-36. In response to the Department's questions, I advised that Pepsi had not been presented with information that would lead it to believe that site conditions represented an imminent threat to human health or the environment.

Following Dunn Corporation's transmittal of the Phase II Report, is my intent to contact the NJDEPE's regional field office to develop a dialogue intended to result in agreement on the need,

if any, to further address issues raised in the Report.

If you have any questions or comments in this regard, please feel free to give me a call.

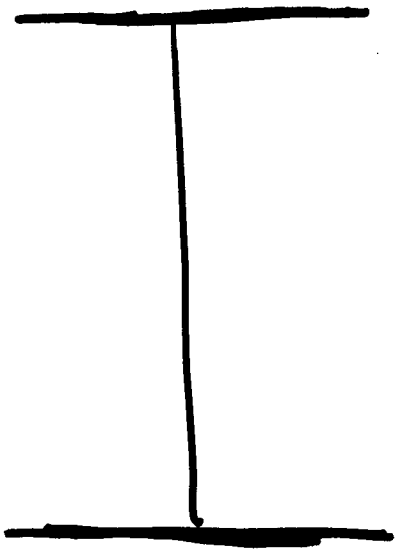
Very truly yours,

BRESSLER, AMERY & ROSS

Eric J. Nemeth

EJN:eap
cc: Edward P. McKenzie, Esq.
Mr. William Reiher

ep - a:\barry.508



Request for Information Regarding Chemical Releases to the Berry's Creek Study Area

* * *

Instructions: As instructed in Question 17, please complete this form by marking the appropriate spaces. Indicate whether each of the chemicals listed has ever been released from the Site to the Berry's Creek Study Area, including creeks, ditches, or other water bodies, or wetlands. Follow additional instructions below. Return the completed form along with your other responses to the Request for Information in the Matter of the Berry's Creek Study Area, Bergen County, New Jersey. N/A signifies no information available.

	Yes	No	N/A
acenaphthene		X	
acenapthylene		X	
anthracene		X	
aluminum		X	
antimony		X	
arsenic		X	
benz(a)anthracene		X	
benzene		X	
benzo(a)pyrene		X	
benzo(b)fluoranthene		X	
benzo(g,h,i)perylene		X	
benzo(k)fluoranthene		X	
bis(2-ethylhexyl)phthalate		X	
butyl benzyl phthalate		X	
cadmium		X	
chlorinated dibenzo-p-dioxins (if "yes", please list specific dioxin compounds on a separate sheet)		X	
chlorinated dibenzofurans (if "yes", please list specific compounds on a separate sheet)		X	
chlorobenzene			
chloroform		X	
chromium		X	
chrysene		X	
copper		X	
cyanide		X	
dibenz(a,h)anthracene		X	
dichlorobenzene		X	
1,2-dichloroethene		X	
di-n-butyl phthalate		X	
1,2-dichlorobenzene		X	
1,2-dichloroethane		X	
dieldrin		X	
di-n-octyl phthalate		X	
ethylbenzene		X	
fluoranthene		X	

	Yes	No	N/A
fluorene		X	
hexachlorobenzene		X	
indeno(1,2,3-cd)pyrene		X	
lead		X	
manganese		X	
mercury		X	
methylene chloride		X	
methyl ethyl ketone		X	
methyl mercury		X	
2-methylnaphthalene		X	
naphthalene		X	
nickel		X	
pentachlorophenol		X	
petroleum hydrocarbons		X	
phenanthrene		X	
phenol		X	
polychlorinated biphenyls (if "yes" please list specific congeners and aroclors on a separate sheet)		X	
polycyclic aromatic hydrocarbons (if "yes", please list specific compounds on a separate sheet, if not listed on this page)		X	
pyrene		X	
selenium		X	
silver		X	
1,1,2,2-tetrachloroethane		X	
tetrachloroethylene		X	
thallium		X	
toluene		X	
1,2-trans dichloroethylene		X	
1,1,1-trichloroethane		X	
trichloroethylene		X	
vinyl chloride		X	
xylene		X	
zinc		X	

David H. Patrick, Esq.
Name of person completing form

The Pepsi-Bottling Group
Company

350 North St. Teterboro, NJ
Site (as defined in the "Instructions")